



# **XSTATE RESOURCES LIMITED**

**ABN 96 009 217 154**

## **ANNUAL FINANCIAL REPORT**

**For the year ended 31 December 2021**

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## **CORPORATE DIRECTORY**

### **Directors**

Mr David McArthur  
Mr Andrew Childs  
Mr Greg Channon

### **Secretaries**

Mr David McArthur  
Mr Jordan McArthur

### **Registered and Principal Office**

Level 1, 31 Cliff Street  
Fremantle WA 6160

Website: [www.xstateresources.com.au](http://www.xstateresources.com.au)

Telephone: +61 8 9435 3200

### **Postal Address**

PO Box 584  
Fremantle WA 6959

### **Auditors**

BDO Audit (WA) Pty Ltd  
Level 9, Mia Yellagonga Tower 2, 5 Spring Street  
Perth WA 6000

### **Bankers**

ANZ Banking Group Limited  
Level 6, 77 St Georges Terrace  
Perth WA 6000

### **Share Registry**

Automic Group  
Level 5, 191 St Georges Terrace  
Perth WA 6000

Telephone: 1300 288 664

### **ASX Code**

Shares: XST

### **Country of Incorporation and Domicile**

Australia

## **CHAIRMAN'S ADDRESS**

Dear Shareholder,

The acquisition of Red Earth and Alberta Plains oil and gas fields in Alberta, Canada in 2020/21 was a transformative step for the Company. These assets were acquired at significantly lower oil prices than we see today and have subsequently enabled the Company to achieve the milestone of being cash flow positive for the first time since incorporation in 1995 during the September 2021 quarter, as announced in the Company's quarterly activities and cash flow report.

In February 2021, the Borba 1-7 well (XST 33.33% WI) was drilled in Northern California to a depth of 8,824ft. After determining sub-commercial gas shows in the lower formations, the Joint Venture tested a total of 13 feet of perforations at approximately 3,900 feet in the Kione Formation. The well flowed 2.1 million cubic feet per date on a ¼ inch choke at 1,440 psi flowing tubing pressure and a stabilised shut-in tubing pressure of 1,530 psi. Subsequent pressure data indicates that Borba could flow at 5,000,000 cubic feet per day. Due to unforeseen changes to the local pipeline owners operating requirements, planned access to the sales network was no longer considered an economic option at this time. However, the Joint Venture continues to assess alternate ways to get access to the natural gas sales grid or to find uses for Borba natural gas, such as Hydrogen generation for the local Californian market, or electricity generation for other purposes. Whilst the delay in monetising Borba gas has been painfully frustrating, the in-ground asset value continues to rapidly appreciate.

In December 2021, the Company farmed into the Anshof-3 exploration well (XST 20% WI) in the Molasse Basin, Austria. Subsequent wireline logs confirmed a hydrocarbon oil and gas discovery with a gross interval of 9m at the primary Eocene oil target of which 2.5m to 4m is expected to be productive net pay. Gas was also interpreted across a 20m gross interval of laminated sands and shales within imbricated Miocene formations, of which 14m are expected to be net gas pay. Production testing of the deeper oil reservoir will commence early second quarter 2022.

The Board and management team are committed to growing the Company's asset base in Canada, California and Austria. Xstate is very fortunate to have a group of highly motivated and skilled contractors who are responsible for our exploration programmes and increasing production which forms a compelling platform for Shareholder returns.

Xstate supports a move to a broader range of fuels to meet the world's energy needs. Natural gas-fired electricity will continue for decades to play a critical role in integrating increasing amounts of renewable energy into the electricity grid. The Company continues to evaluate helium and hydrogen opportunities as an integral part of our natural gas business.

On behalf of the Board of Xstate, I would like to thank our Shareholders for their continued support. We look forward to reporting on the Company's activities as we continue to transform Xstate into a material North American and Austrian onshore oil and gas producer.



Andrew Childs

**Chairman**

## **REVIEW OF OPERATIONS**

### **Overview**

Xstate Resources Limited (“**Xstate**” or “**the Company**”) is listed on the Australian Stock Exchange (**ASX:XST**). The Group is primarily involved in oil and natural gas exploration and production.

The calendar year 2021 was a watershed year for Xstate. The Company participated in 2 successful exploration wells, and became a significant oil and gas producer via increasing our working interest in our Canadian oil and gas assets from Blue Sky Resources (**BSR**). We are now a significant cash generating entity, and are using that cash to grow our production and fund organic exploration opportunities. We have survived and prospered during the 2nd year of the global pandemic, being able to utilise our strong business relationships all over the world. These relationships have meant we can function in the global theatre without having to travel or have a physical presence in each of our regions. We close 2021 with a very strong foundation, and look forward to growing our production in 2022 and exploring for new opportunities.

### **Operational Highlights**

- Borba 1 (XST WI 33.33%) intersects producible gas at the shallow Kione Formation
- Xstate initiates production in Canada and increases its Working Interest in Red Earth and Alberta Plains producing assets to 25% and 35% respectively
- Net Production (before Royalty) at year end (31<sup>st</sup> December 2021) was 380 BOEPD from the Canadian Assets.
- Helium and Hydrogen potential recognised in Canadian assets
- 3 Development wells planned for Alberta Plains in 2022
- Farmin to Austrian exploration well, Anshof-3, leads to an oil and gas discovery in the Molasse Basin

### **Canada: Alberta Producing Operations (25-35% WI)**

Xstate has 2 producing oil and gas producing properties in Alberta Canada: Red Earth (WI 25%) and Alberta Plains (WI 35%). The acquisition of these producing assets was at a significantly lower oil price than we see today. At the close of 2021, net production (before royalty) to Xstate was 380 BOEPD. Current net production (before Royalty) is 513 BOEPD at the writing of this report. The asset continues to perform well and provide valuable revenue and cash flow to our Company.

<b>XST share of Oil and Gas production in Canada</b>	<b>Financial Year 2021 (BOE)</b>	<b>Financial Year 2020 (BOE)</b>
XST WI share of Production (before Royalty)	111,334	-
XST WI share of Production (after Royalty)	97,100	-

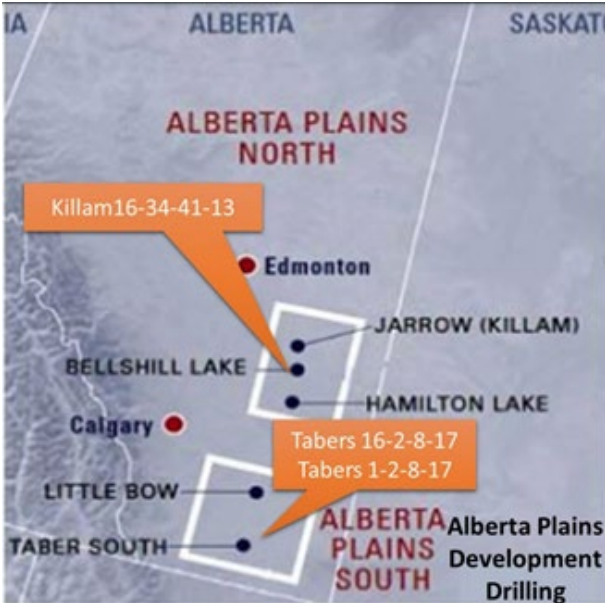
*\*gas converted to boe using 6:1 ratio*



Location map of Canadian Producing Assets

**Alberta Plains Development Drilling**

Xstate will participate at 35% Working Interest in a three-well program to drill three oil development wells in the Alberta Plains, Canada. Xstate plans to fully fund its share of the drilling program from the Company’s net operating cashflow.



Location of Alberta Plains development wells

The total cost of the three well development program is estimated at A\$2.7m (gross), which will be a cost of A\$950k net to Xstate.

**XSTATE RESOURCES LIMITED**  
**REVIEW OF OPERATIONS**  
**For the year ended 31 December 2021**

The Company anticipates a production increase of 200 BOEPD (gross) which equates to 70 BOEPD (of primarily oil) net to Xstate. Given the current reference oil price exceeding US\$100/bbl, production from these wells is projected to pay back the capital and operating expenditure in less than 12 months.

Drilling licences have been received from the Alberta Energy Regulator (**AER**). The Operator, Blue Sky Resources, has contracted a rig and purchased long lead items and will mobilise to drill the wells as soon as weather conditions allow. Xstate anticipates that the program will start in early Q2 2022.

The wells are mapped to be independent of each other and will target Proved Undeveloped ("PUD") Reserves.

In October 2021, an auction of oil and gas leases in the Red Earth Area surprised market participants with third-party winning bids materializing at around 10 times the value of the Xstate's bid for the leases. This is interpreted to reflect changing perceptions of oil and gas lease values in the Red Earth Area and more broadly in Alberta Province of Canada.

**Canadian Assets Reserve Reports**

Independent Reserves Reports were undertaken by GLJ Consultants on our Red Earth properties and McDaniel on our Alberta Plains properties. The Reports are dated 31 December 2021.

<b>Red Earth Reserves Table</b> <b>31 Dec 2021 – GLJ Consultants (MMBOE)</b>	<b>XST</b> <b>WI</b>	<b>XST Reserves</b> <b>before Royalty</b> <b>(at 31-12-21)</b>	<b>XST Reserves after</b> <b>Royalty</b> <b>(at 31-12-21)</b>	<b>XST Reserves after</b> <b>Royalty</b> <b>(at 31-12-20)</b>
Proved Producing ( <b>PDP</b> )	25%	526,000	478,000	-
Proved Developed Not Producing ( <b>PDNP</b> )	25%	509,000	467,000	-
Proved Undeveloped ( <b>PUD</b> )	25%	76,000	66,000	-
<b>Total Proved (1P) Reserve</b>		<b>1,111,000</b>	<b>1,011,000</b>	-
<i>Probable Reserves (Porb)</i>	25%	543,000	495,000	-
<b>Total Proved plus Probable (2P) Reserves</b>		<b>1,654,000</b>	<b>1,506,000</b>	-
<b>Alberta Plains Reserves Table</b> <b>31 Dec 2021 – McDaniel (MMBOE)</b>	<b>XST</b> <b>WI</b>			
Proved Producing ( <b>PDP</b> )	25%	634,123	584,423	-
Proved Developed Not Producing ( <b>PDNP</b> )	25%	94,500	87,112	-
Proved Undeveloped ( <b>PUD</b> )	25%	35,156	32,044	-
<b>Total Proved (1P) Reserve</b>		<b>763,779</b>	<b>703,579</b>	-
<i>Probable Reserves (Porb)</i>	25%	342,689	311,672	-
<b>Total Proved plus Probable (2P) Reserves</b>		<b>1,106,467</b>	<b>1,015,250</b>	-
<b>TOTAL RESERVES TABLE (MMBOE)</b>				
Proved Producing ( <b>PDP</b> )		1,160,123	1,062,423	-
Proved Developed Not Producing ( <b>PDNP</b> )		603,500	554,112	-
Proved Undeveloped ( <b>PUD</b> )		111,156	98,044	-
<b>Total Proved (1P) Reserve</b>		<b>1,874,779</b>	<b>1,714,579</b>	-
<i>Probable Reserves (Porb)</i>		885,689	806,672	-
<b>Total Proved plus Probable (2P) Reserves</b>		<b>2,760,467</b>	<b>2,521,250</b>	-

**Additional Information Required under Chapter 5 of the ASX Listing Rules to be read as Notes to Reserve Table:**

1. The Reserves were estimated by a qualified Independent Reserve Auditor GLJ Limited and McDaniel and have been classified in accordance with SPE-PRMS. They have been reviewed in detail by XST's Competent Person, Mr Gregory Channon. Mr Channon has more than 35 years technical, commercial and management experience in exploration appraisal and development of oil and gas. Mr Channon is a member of the American Association of Petroleum Geologists. Mr Channon has reviewed the information and supporting documentation referred to in this announcement and considers the reserve estimates to be fairly represented and consents to its release in the form and context in which it appears. His academic qualifications and industry memberships appear on the Company's website and both comply with the criteria for "Competence" under clause 3.1 of the Valmin Code 2015. Terminology and standards adopted by the Society of Petroleum Engineers "Petroleum Resources Management System" have been applied in producing this document.

The Reserves Estimates compiled from data and information supplied by the Operator of the Red Earth and Alberta Plains Properties, Blue Sky Resources Limited under the supervision of Matthew Mazuryk. Mr Mazuryk has a Bachelor of Engineering Degree in Petroleum Engineering from Montana Technological University; he is a Registered Professional Engineer in the Province of Alberta and is qualified in accordance with ASX listing rule 5.41.

**2. QUALIFIED PETROLEUM RESERVES AND RESOURCE EVALUATOR REQUIREMENTS:**

**Red Earth Properties:**

The reserves and resources information in this Australian Stock Exchange ("ASX") document relating to oil fields in the Red Earth Properties are based on, and fairly represent information prepared by, or under the supervision of Ryan F Campbell and Trisha S MacDonald from GLJ Limited ("GLJ"). Ryan Campbell is an employee of GLJ and has a Bachelor of Science Degree in Chemical Engineering from Calgary University. Mr Campbell is a Registered Professional Engineer in the Province of Alberta and is qualified in accordance with ASX listing rule 5.41. Trisha S Macdonald is an employee of GLJ and has a Bachelor of Science Degree in Oil and Gas Engineering from Calgary University and is a Registered Professional Engineer in the Province of Alberta and is qualified in accordance with ASX listing rule 5.41.

GLJ and its named employees have consented to be named in this manner in this release.

**Alberta Plains Properties:**

The reserves and resources information in this Australian Stock Exchange ("ASX") document provided to McDaniel & Associates Consultants Ltd (McDaniel) relating to oil fields in the Alberta Plains Properties are based on, and fairly represent information prepared by, or under the supervision of Mike Verney. Mike Verney is an employee of McDaniel and has a Bachelor of Applied Science and a Bachelor of Arts (Economics) from Queen's University. Mr Verney is a Registered Professional Engineer in the Province of Alberta and is qualified in accordance with ASX listing rule 5.41.

McDaniel and its named employees have consented to be named in this manner in this release.

3. Production trends and operating cost trends are well established, enabling the reliable prediction of future production by decline curve analysis, the estimation of future revenue from oil and gas sales as well as the forecasting of future costs. Economic life of reserves takes into account oil and gas revenues based on prevailing commodity pricing as well estimated operating costs, capital costs, royalties and mineral taxes.



## **XSTATE RESOURCES LIMITED**

### **REVIEW OF OPERATIONS**

**For the year ended 31 December 2021**

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4. The reserves are estimated at 31 December 2021 using Deterministic Methods based on GLJ and McDaniel estimates of future oil production using technical and economic data. Remaining oil production, based on analysis of well logs, geologic maps, seismic data, well test data, production data and property ownership information is multiplied by oil prices determined the GLJ and McDaniel 2021 price deck (based on extensive market information and professional experience and expertise) at 31 December 2021, which is part of a regular release on the GLJ and McDaniel websites adjusted for individual field related imposts to estimate future revenues. Operator supplied field Operating Costs based on actual and projected costs are deducted from revenues on a yearly basis to determine the economic limit of the wells and summed by individual field. Royalty payments are treated as Operating Cost deductions. Estimated individual field lives based on the above methods and 2P reserves ranged from 12 to 25 years. These will vary over times due to oil prices, operating costs and other related imposts.
  5. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering and geoscience data; therefore, conclusions necessarily represent only informed professional judgement.
  6. The Reserves have been estimated using Deterministic Methods and have been summed arithmetically and have not been adjusted for risk. The reserves are estimates and may increase and decrease as a result of market conditions, future operations including reactivations and fracture stimulations, enhanced recovery through waterfloods or changes in regulations, or actual reservoir performance. Estimates are based on certain assumptions including, but not limited to, that the properties will be operated in a prudent manner, that no governmental regulations or controls will be put in place that would impact the ability of the Operator to recover the volumes, and that projections of future production will prove consistent with actual performance. Because of governmental policies and uncertainties of supply and demand, the sales rates, prices received, and costs incurred may vary from assumptions made.
  7. The Canadian properties are non-operated.
  8. Leases are Crown (Government awarded) leases. Most leases are Held By Production (**HBP**); annual rentals are paid on leases that are not HBP. Leases cover a net to the joint venture, an area of approximately 123,000 acres.
  9. Royalties are paid to the Government based upon a formula where lower producing wells attract a lower royalty rate. Based upon the current gross production, the production royalty averages approximately 12%.
  10. Reserves are mostly based on normal oilfield primary recovery methods using predominantly bottom hole rod insert pumps with conventional pumpjacks; 3 wells use electric submersible pumps (**ESP**). Some areas of the Red Earth fields are under secondary recovery using waterflood techniques.
  11. Based on local reservoir experience further fracture stimulation and waterflooding may significantly increase reserves over time. The economic benefit and use of these techniques will be determined by economic analysis in the future.
  12. No specialised processing of the oil is required.
  13. Undeveloped Reserves are based on assumptions using the local cost of development wells to access the reserves, offset and analogue producing well performance and operating costs.
  14. The production is transported by tankers and owned gathering pipelines to third party access pipelines to various markets in Canada, primarily local refineries. Oil prices received are local free market prices.
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**XSTATE RESOURCES LIMITED**  
**REVIEW OF OPERATIONS**  
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**PRMS Reserves Classifications used in this Release:**

**1P** Denotes low estimate of Reserves (i.e., Proved Reserves). Equal to P1.

**2P** Denotes the best estimate of Reserves. The sum of Proved plus Probable Reserves.

**Proved Reserves** are those quantities of Petroleum that, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable from known reservoirs and under defined technical and commercial conditions. If deterministic methods are used, the term “reasonable certainty” is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

**Probable Reserves** are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

**Developed Reserves** are quantities expected to be recovered from existing wells and facilities.

**Developed Producing Reserves** are expected to be recovered from completion intervals that are open and producing at the time of the estimate.

**Developed Non-Producing Reserves** include shut-in and behind-pipe reserves with minor costs to access.

**Undeveloped Reserves** are quantities expected to be recovered through future significant investments.

**Pricing Strip Tables used in Reserves reporting**

Table 1  
GLJ, McDaniel, Sproule  
Crude Oil and Natural Gas Liquids  
3 Consultants' Average (2022-01)  
Effective January 1, 2022

Year	Inflation %	CAD/USD Exchange Rate USD/CAD	NYMEX WTI Near Month Futures Contract Crude Oil at Cushing, Oklahoma		Brent Blend Crude Oil FOB North Sea	MSW, Light Crude Oil (40 API, 0.3%S) at Edmonton	Bow River Crude Oil Stream Quality at Hardisty	WCS Crude Oil Stream Quality at Hardisty	Heavy Crude Oil Proxy (12 API) at Hardisty	Light Sour Crude Oil (35 API, 1.2%S) at Cromer	Medium Crude Oil (29 API, 2.0%S) at Cromer	Alberta Natural Gas Liquids (Then Current Dollars)			
			Constant 2022 \$ USD/bbl	Then Current USD/bbl	Then Current USD/bbl	Then Current CAD/bbl	Then Current CAD/bbl	Then Current CAD/bbl	Then Current CAD/bbl	Then Current CAD/bbl	Then Current CAD/bbl	Spec Ethane CAD/bbl	Edmonton Propane CAD/bbl	Edmonton Butane CAD/bbl	Edmonton C5+ Stream Quality CAD/bbl
2022	0.0	0.7967	72.83	72.83	75.33	86.82	75.22	74.43	66.46	87.24	83.94	11.48	43.39	57.49	91.85
2023	2.3	0.7967	67.21	68.78	71.46	80.73	69.92	69.17	61.90	81.09	78.06	10.33	35.92	50.17	85.53
2024	2.0	0.7967	63.96	66.76	69.62	78.01	67.26	66.54	59.44	78.35	75.43	9.81	34.62	48.53	82.98
2025	2.0	0.7967	63.95	68.09	71.01	79.57	68.60	67.87	60.64	79.91	76.94	10.01	35.31	49.50	84.63
2026	2.0	0.7967	63.96	69.45	72.44	81.16	69.98	69.23	61.87	81.51	78.48	10.22	36.02	50.49	86.33
2027	2.0	0.7967	63.95	70.84	73.88	82.78	71.37	70.61	63.10	83.14	80.05	10.42	36.74	51.50	88.05
2028	2.0	0.7967	63.96	72.26	75.36	84.44	72.80	72.02	64.38	84.81	81.65	10.64	37.47	52.53	89.82
2029	2.0	0.7967	63.95	73.70	76.87	86.13	74.25	73.46	65.67	86.50	83.29	10.86	38.22	53.58	91.61
2030	2.0	0.7967	63.95	75.18	78.40	87.85	75.49	74.69	66.68	88.23	84.95	11.08	38.99	54.65	93.44
2031	2.0	0.7967	63.95	76.68	79.97	89.60	77.00	76.19	68.02	90.00	86.65	11.31	39.77	55.74	95.32
2032	2.0	0.7967	63.95	78.21	81.57	91.40	78.54	77.71	69.38	91.80	88.38	11.53	40.56	56.86	97.22
2033	2.0	0.7967	63.96	79.78	83.21	93.23	80.11	79.26	70.77	93.63	90.15	11.77	41.37	58.00	99.17
2034	2.0	0.7967	63.96	81.38	84.87	95.09	81.71	80.85	72.18	95.51	91.95	12.00	42.20	59.15	101.15
2035	2.0	0.7967	63.96	83.00	86.57	96.99	83.35	82.47	73.63	97.42	93.79	12.24	43.04	60.34	103.17
2036	2.0	0.7967	63.96	84.66	88.30	98.93	85.01	84.11	75.10	99.36	95.67	12.49	43.91	61.54	105.24
2037+	2.0	0.7967	63.96	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr

Historical futures contract price is an average of the daily settlement price of the near month contract over the calendar month.

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**REVIEW OF OPERATIONS**  
**For the year ended 31 December 2021**

**Pricing Strip Tables used in Reserves reporting (continued)**

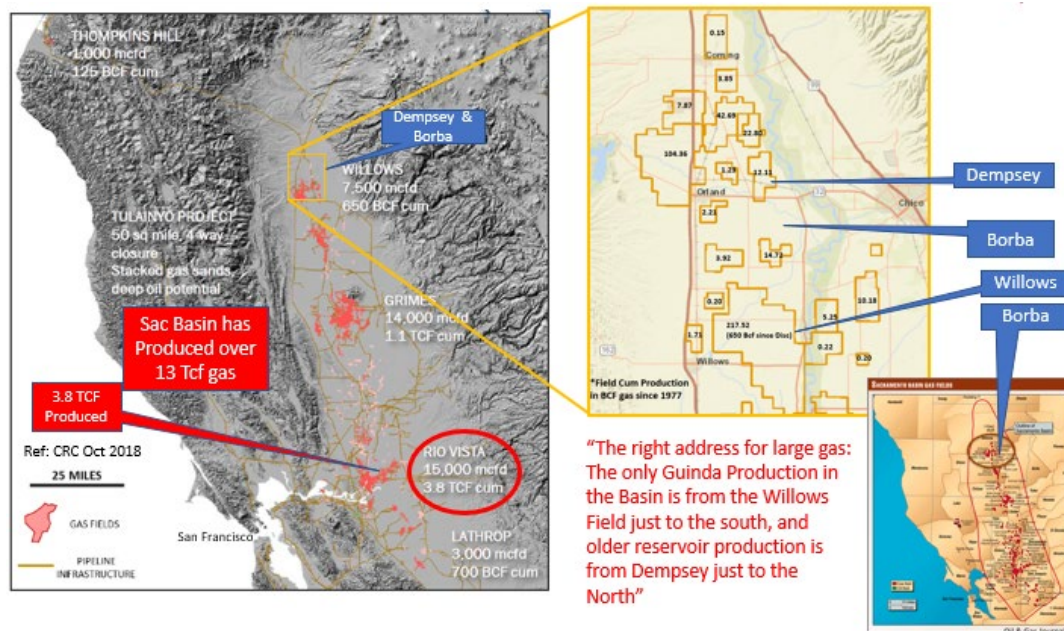
Table 2  
GLJ, McDaniel, Sproule  
Natural Gas and Sulphur  
3 Consultants' Average (2022-01)  
Effective January 1, 2022

Year	NYMEX Henry Hub Near Month Contract		Midwest Price at Chicago	AECO/NIT Spot	Dawn Price at Ontario	Alberta Plant Gate			Saskatchewan Plant Gate			British Columbia		
	Constant 2022 \$ USD/MMBtu	Then Current USD/MMBtu	Then Current USD/MMBtu	Then Current CAD/MMBtu	Then Current USD/MMBtu	Spot			ARP CAD/MMBtu	SaskEnergy CAD/MMBtu	Spot CAD/MMBtu	Sumas Spot USD/MMBtu	Westcoast Station 2 CAD/MMBtu	Spot Plant Gate CAD/MMBtu
						Constant 2022 \$ CAD/MMBtu	Then Current CAD/MMBtu	Then Current USD/MMBtu						
2022	3.85	3.85	3.71	3.56	3.78	3.31	3.31	3.29	3.50	3.38	3.66	3.48	3.23	
2023	3.36	3.44	3.30	3.20	3.37	2.89	2.96	2.93	3.15	3.03	3.28	3.14	2.89	
2024	3.04	3.17	3.03	3.05	3.10	2.68	2.80	2.77	2.99	2.87	3.01	2.98	2.73	
2025	3.04	3.24	3.09	3.10	3.16	2.68	2.86	2.83	3.05	2.92	3.07	3.04	2.79	
2026	3.04	3.30	3.16	3.17	3.23	2.69	2.92	2.89	3.12	2.99	3.14	3.10	2.85	
2027	3.04	3.37	3.22	3.23	3.29	2.69	2.98	2.95	3.18	3.05	3.20	3.16	2.91	
2028	3.04	3.44	3.29	3.30	3.36	2.69	3.04	3.01	3.25	3.12	3.26	3.22	2.97	
2029	3.04	3.51	3.36	3.36	3.43	2.70	3.11	3.08	3.32	3.18	3.33	3.29	3.04	
2030	3.04	3.57	3.43	3.43	3.49	2.69	3.17	3.14	3.38	3.25	3.40	3.35	3.10	
2031	3.04	3.65	3.50	3.50	3.57	2.70	3.24	3.21	3.45	3.32	3.47	3.42	3.17	
2032	3.04	3.72	3.57	3.57	3.64	2.70	3.30	3.28	3.53	3.39	3.54	3.49	3.23	
2033	3.04	3.79	3.64	3.64	3.71	2.70	3.37	3.34	3.60	3.46	3.61	3.56	3.29	
2034	3.04	3.87	3.71	3.71	3.78	2.70	3.44	3.41	3.67	3.53	3.68	3.63	3.36	
2035	3.04	3.95	3.79	3.79	3.86	2.70	3.51	3.48	3.74	3.60	3.76	3.70	3.43	
2036	3.04	4.03	3.87	3.86	3.94	2.70	3.58	3.55	3.82	3.67	3.83	3.78	3.49	
2037+	3.04	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	2.70	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	

Unless otherwise stated, the gas price reference point is the receipt point on the applicable provincial gas transmission system known as the plant gate.  
The plant gate price represents the price before raw gathering and processing charges are deducted.

**California: Sacramento Basin (Various WIs)**

Xstate continues to hold a significant acreage position in the Sacramento Basin.



### **Borba Natural Gas Prospect Drilling (33.33% WI)**

During 2021, the Borba 1-7 well was drilled to a Total Depth of 8,824ft. After determining sub-commercial gas shows 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 pay. The well flowed 2.1 million cubic feet of gas per day on ¼" choke at 1440 psi Flowing Tubing Pressure and a stabilised Shut-in Tubing Pressure of 1,530 pounds per square inch.

While the calculated flow from the Borba well at 1300 psi tubing pressure (equivalent to 400# of pressure drawdown) is 5,000,000 cubic feet of gas per day (5,000 mcfcpd)\*, the company believes a prudent initial flowrate to be 3,000 mcfpd from the Borba 1-7 well. These parameters may be varied following initial production depending on operational outlet pressures and observed reservoir behaviour.

\*Note: 1 'mcfcpd' is 1,000 cubic feet of gas per day- approximately 1 sale unit of gas per day.



*Borba 1-7 during flow testing*

### **Gas Usage Review for Borba Gas**

Following on from reviews of pipeline operating incidents, the local pipeline network owner 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 potential.

As a result, the Operator assessed other viable alternatives to monetise Borba's gas and surrounding prospects.

Local generation of hydrogen to supply the growing Californian market provides 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 wellsite;
- Diversify tradition O&G activities into well supported renewable energy markets.



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The Borba well natural gas may also be utilised for on-site generation of electricity, which in turn could be used by local power consumers.

The Joint Venture is developing partnerships with equipment and technology providers to support a natural gas consuming project at Borba. Sagasco joined the Californian Hydrogen Business Council (**CHBC**) as a Silver Member to further the JV's Hydrogen activities. The JV is also studying local electricity generation opportunities.

### Gas Production in Sacramento Basin Joint Venture

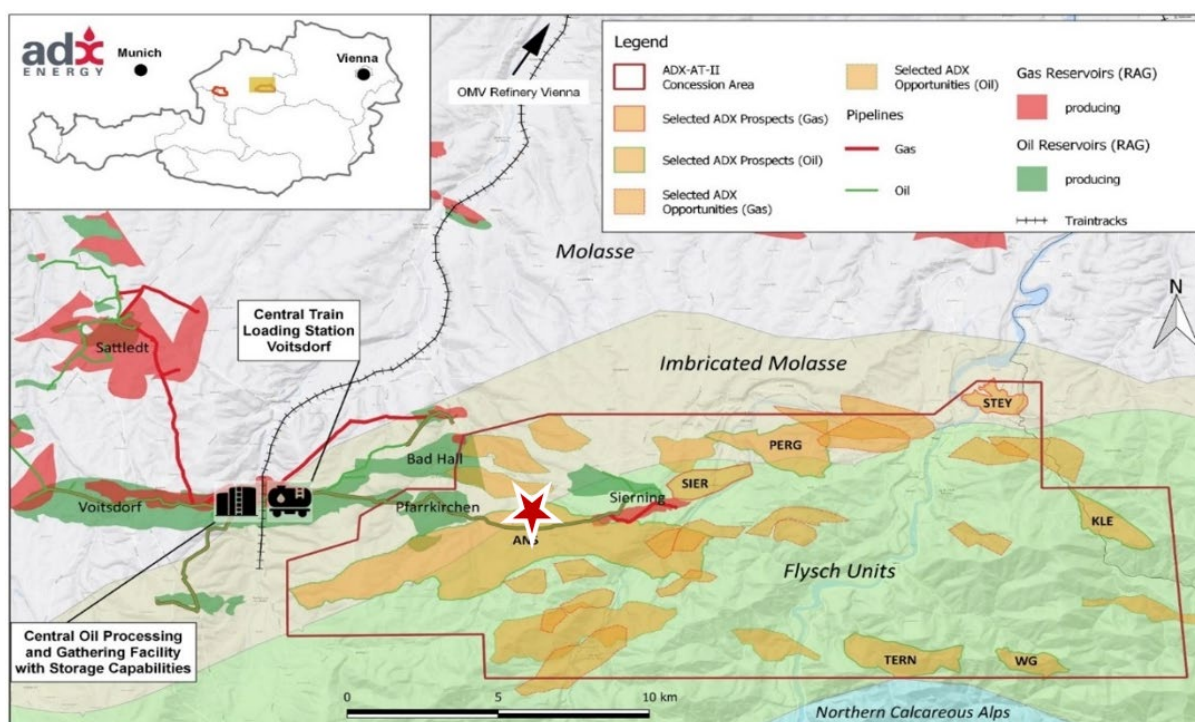
The Company continued to maintain leases in the Sacramento Basin during the quarter. Xstate has a working interest (WI) of between 10% and 33.3% in oil and gas leases. California has an unsatiated average 7 Bcf per day gas market. California imports over 90% of this natural gas from other US States and Canada.

Current reference natural gas prices for sales in Sacramento Basin are around US\$5.15 / mcf (circa AUD \$7 / mcf).

California Gas Flows (mcf) <sup>1</sup>	2021	2020
Gross Production	119,894	136,146
XST Production after Mineral Royalty	11,882	14,020
Note 1: mcf = Thousand Cubic feet gas		

### Austria: Anshof Exploration Farmin (20% WI)

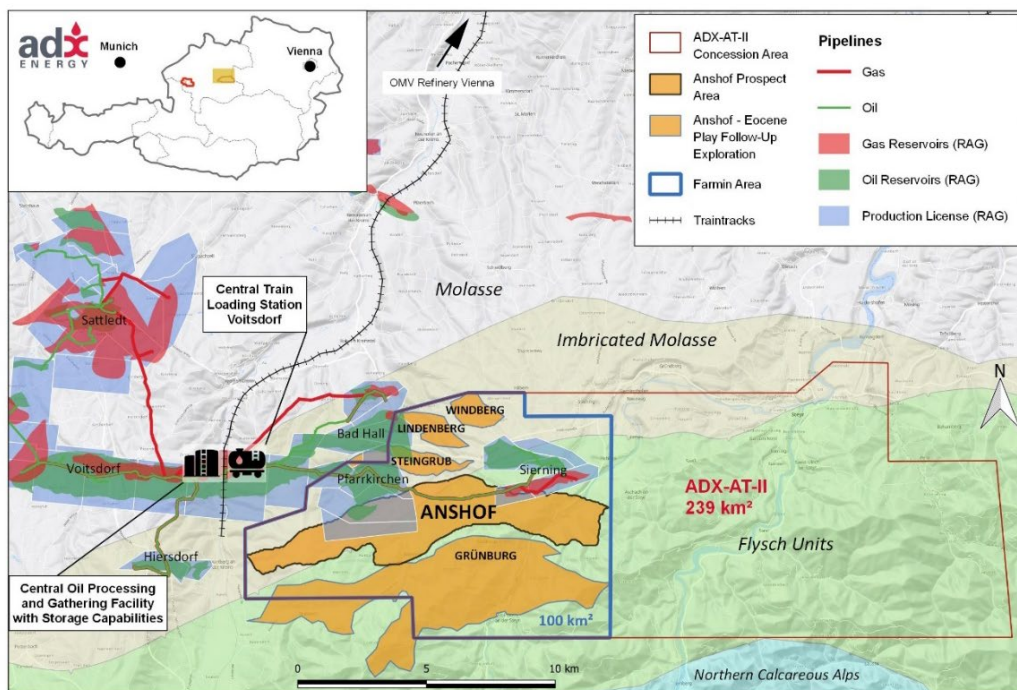
During the fourth quarter of 2021, Xstate executed a farmin agreement with ADX Energy Ltd ("**ADX**") (ASX:ADX) to participate in the drilling of the Anshof-3 exploration wells in the Molasse Basin of Austria.



Anshof Location Map

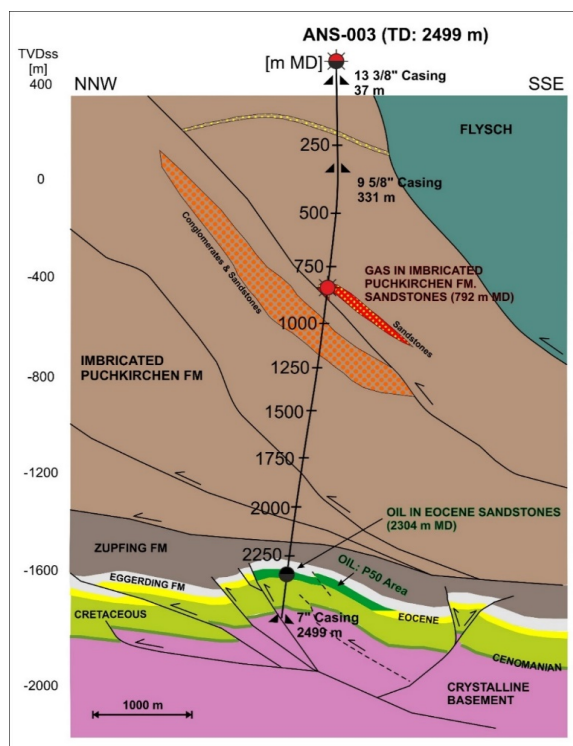
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Xstate funded 40% of the Anshof-3 well up to a cap at €1.8 million (A\$3.1 million) to earn a 20% equity interest in the Anshof Prospect Area. Beyond the €1.8 million cap, Xstate paid its working interest share of 20%. Xstate also has the right to elect to fund 40% of a second well on the Anshof Prospect or the Anshof Farmin Area to earn a 20% interest in the Anshof Farmin Area within the ADX-AT-II exploration license.



*Anshof Prospect Map*

The Anshof Prospect is situated in the eastern margin of the Molasse Basin and is thrust anticline defined on 3D seismic.



*Schematic Cross section of Anshof 3*

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The well spudded on 18 December 2021, and subsequent to year end in January, the Operator announced the well had intersected gas and oil pay on wireline logs and was a hydrocarbon discovery.

Petrophysical analysis of Anshof-3 identified the following:

- Oil interpreted across a gross interval of 9m at the primary Eocene oil target, of which, approximately 2.5 to 4m is expected to be productive net pay zone;
- Gas interpreted across a 20m gross interval of laminated sand and shale reservoirs within imbricated Miocene formations, of which 14m are expected to be gas pay; and
- The reservoir characteristics across the oil and gas intervals are analogous to productive zones encountered in nearby wells providing further confidence in the interpretation of drilling and logging results.

The well was cased and cemented with 7-inch casing to the total depth of 2,499m utilising the RED Drilling & Services GmbH E-200 rig (RED rig) which has subsequently been demobilised.

Additionally, after the end of the reporting period the Operator has announced that Anshof-3 will be production tested in March / April 2022. The well will be perforated and flow tested at the deeper Eocene sandstone reservoir. Depending on the long-term economic flow potential of the Eocene reservoirs at Anshof-3, a decision will be made in relation to testing the shallower Miocene gas reservoirs. The well test results for the Eocene zone will also provide information which will be important for the appraisal and development of the Eocene discovery, such as reservoir productivity, oil quality and reservoir continuity. The cost of the testing to Xstate is estimated at circa A\$100,000, and will be funded from existing cash reserves.

**Xstate Tenement Listing (as at 31 December 2021)**

<b>XSTATE RESOURCES LIMITED – TENEMENT LIST AS AT 31 DECEMBER 2021</b>		
<b>Project name</b>	<b>Category</b>	<b>Working Interest (WI)</b>
<b>Anshof 3 Farmin Area</b>	Exploration	20%
<b>Alvares Appraisal Well</b>	Appraisal	25%
<b>Alvares Project</b>	Exploration & Appraisal	30%
<b>Dempsey 1-15 Well</b>	Exploration & Appraisal	10%
<b>Dempsey AMI</b>	Active leasing 3 large prospects	24%
<b>Rancho Capay Field</b>	Production	10%
<b>Malton field</b>	Production	30%
<b>East Rice East Creek Field</b>	Production	10%
<b>Los Medanos Gas Field</b>	Production	10%
<b>Dutch Slough Field</b>	Production	30%
<b>Denverton Field</b>	Production	30%
<b>Red Earth</b>	Production	25%
<b>Alberta Plains</b>	Production	35%
<b>Projects are continuously reviewed for their strategic fit and are expected to be modified over time to reflect industry conditions.</b>		

USA and Canadian exploration are conducted on leases granted by Mineral Right owners, in Xstate's case, primarily governments, 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).

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**The Financial Year**

On 1 February 2021, 8,000,000 fully paid ordinary shares were issued to Mr David McArthur as partial settlement of an outstanding liability, following shareholder approval at the January General Meeting. Additionally on this date, 90,000,000 unlisted 31 December 2022 options, exercisable at \$0.005, were issued to Directors of the Company following shareholder approval at the January General Meeting.

On 2 February 2021, 562 outstanding convertible notes were converted into 297,013,160 fully paid ordinary shares, representing payment of principal and interest to date. Additionally on this date, 58,333,333 fully paid ordinary shares were issued to Blue Sky Resources Limited as partial payment of consideration for the acquisition of the Company's initial 10% WI in the Red Earth production assets.

On 11 February 2021, 500,000,125 fully paid ordinary shares were issued in a placement to sophisticated investors at an issue price of \$0.008, raising \$4m before costs. Additionally on this date, 5,000,000 unlisted 31 December 2022 options were exercised, raising \$25k. On 17 February 2021, a further 10,000,000 unlisted options were exercised, raising \$50k.

On 14 July 2021, Mr Andrew Childs was appointed as Executive Chairman of the Board and Mr David McArthur became a Non-Executive Director, discontinuing his role as Interim Managing Director.

On 3 August 2021, 254,521,500 fully paid ordinary shares were issued to Blue Sky Resources Limited as partial payment of consideration for the acquisition of the Company's further 25% WI in the Red Earth production assets. Additionally on this date, a total of 21,072,635 fully paid ordinary shares were issued to Blue Sky Resources as partial payment of consideration for the acquisition of the Company's 35% WI in the Alberta Plains production assets.

Furthermore on 3 August 2021, 250,000,000 fully paid ordinary shares were issued to sophisticated investors at an issue price of \$0.004 per share, to raise \$1m before costs.

As at 31 December 2021, the Company held cash and cash equivalents of \$724,391 and receivables of \$885,988.

As at 31 December 2021, Xstate had 3,215,181,651 shares on issue and 4,494 shareholders. It's Top 20 holders held 801,833,588 shares or 24.94% of the Company's issued capital.

**Financial results and condition**

The net loss for the financial year ended 31 December 2021 after income tax was \$4,643,657 (2020: \$652,434).

Canadian oil and gas operations netted \$8,424,511 of revenue to the Group, with net profit on those operations of \$195,393 before tax.

The Group has working capital of \$60,033 (2020: \$684,982) and net cash outflows of \$142,062 (2020: inflow \$277,474).

The Company remains acutely aware of the current economic climate and continues to assess costs incurred to ensure appropriate allocation of resources. The current sustained increase in oil and gas prices recognised on Canadian production operations has enable the Company to conduct exploration activities from free cash flow.



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**Summary of results**

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Revenue from ordinary activities	8,424,511	-
Other income	250,588	80,813
Loss before income tax	(4,366,994)	(648,692)
Income tax expense	(276,663)	(3,742)
Net Loss for the year	<b>(4,643,657)</b>	<b>(652,434)</b>
Other comprehensive income	150,466	6,358
Total comprehensive loss for the year	<b>(4,493,191)</b>	<b>(646,076)</b>
Underlying loss per share (cents)	(0.16)	(0.04)
Shares on issue at reporting date	3,215,181,651	1,811,240,898
Weighted average number of shares	2,818,779,888	1,467,653,466

**Planned Activity - 2022**

The Company will seek to continue with the activities outlined in the operations review in addition to assessing various opportunities to secure producing or high-quality and low risk speculative assets in on-shore North America and Europe.

**Competent person statement**

The technical information provided has been compiled by Mr Greg Channon, Non-Executive Director of Xstate Resources Limited. Mr Channon is a qualified geologist with over 35 years technical, commercial and management experience in exploration, appraisal and development, and transportation of oil and gas and mineral and energy resources. Mr Channon has reviewed the results, procedures and data contained in this report and has consented to the inclusion of the above information in the form and context in which it appears.

## DIRECTORS' REPORT

The Directors present their report together with the financial statements of Xstate Resources Limited (the Company) and of the Group, being the Company and its subsidiaries for the financial year ended 31 December 2021 and the auditor's report thereon.

### 1. DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

Name and independence status	Experience, qualifications, special responsibilities and other directorships
<b>Andrew Childs</b> Executive Chairman Appointed 14 July 2021 <i>Previously Non-Executive Director appointed 22 April 2020</i> <i>Interest in shares and options</i> Shares: 10,000,000 Options: 25,000,000	<p>Mr Childs is a petroleum geologist with over 35 years of Oil and Gas experience, working in Technical and Commercial roles for small to mid-capped Companies listed on the ASX, AIM and TSX markets.</p> <p>Mr Childs is a Non-executive Director of Sacgasco Limited and ADX Energy Limited.</p> <p>Mr Childs is Chair of the Nominations and Remuneration Committee and a member of the Audit and Risk Management Committee.</p>
<b>David McArthur</b> Non-Executive Director Appointed 14 July 2021 <i>Previously Managing Director appointed 26 November 2019</i> <i>Interest in shares and options</i> Shares: 28,993,699 Options: 30,000,000	<p>David McArthur is a Chartered Accountant, having spent four years with a major international accounting firm, and has over 35 years' experience in the accounting profession. Mr McArthur has been actively involved in the financial and corporate management of a number of public listed companies for over 30 years.</p> <p>Mr McArthur has a Bachelor of Commerce Degree from the University of Western Australia.</p> <p>Mr McArthur has substantial experience in capital raisings, company re-organisations and restructuring, mergers and takeovers, and asset acquisitions by public companies.</p> <p>Mr McArthur is a Non-executive Director of Lodestar Minerals Limited and Delorean Corporation Limited. Mr McArthur was a Director of Harvest Technology Group Limited until 3 September 2019 and a Director of Sacgasco Limited until 1 June 2021.</p>
<b>Greg Channon</b> Non-executive Director Appointed: 17 August 2020 <i>Interest in shares and options</i> Shares: 5,284,930 Options: 20,000,000	<p>Mr Channon is a geologist with over 35 years of global oil and gas experience in a variety of technical and leadership roles. He is currently Executive Chairman of RL Energy, and a Non-executive Director of Samson Oil and Gas Limited.</p> <p>During his career, Mr Channon has worked with a range of E&amp;P companies including Delhi, Santos, Fletcher Challenge Energy, Shell, Swift Energy, BrightOil and Pathfinder. He has lived and worked in Australia, New Zealand, USA, Hong Kong, China and Africa.</p> <p>Mr Channon has a large range of diverse oil and gas expertise, including exploration, operations, development, production, economics, commercial negotiations, new ventures, business development and IPO start-ups. He has sat on the Board of Directors of companies listed on the ASX, NYSE, TSX and HKSE.</p> <p>Mr Channon is Chair of the Audit and Risk Management Committee and a member of the Nominations and Remuneration Committee.</p>

## **2. COMPANY SECRETARIES**

Mr David McArthur is a Chartered Accountant and was appointed to the position of Company Secretary on 29 October 1999. Mr McArthur has over 30 years' experience in the corporate management of publicly listed companies.

Jordan McArthur is a Chartered Accountant and was appointed to the position of joint company secretary on 17 April 2018. Mr McArthur has 10 years corporate and financial experience in Australia and the United Kingdom.

## **3. DIRECTORS' MEETINGS**

The number of meetings of the Company's Board of Directors held during the year ended 31 December 2021, and the number of meetings attended by each Director was:

Director	Full meetings of Directors		Meeting of Audit and Risk Management Committee	
	No. of meetings attended	No. of meetings held whilst a Director	No. of meetings attended	No. of meetings held whilst a Director
David McArthur	4	4	2	2
Andrew Childs	4	4	2	2
Greg Channon	4	4	2	2

## **4. PRINCIPAL ACTIVITIES**

The principal activity of the Group during the course of the financial year was oil and natural gas exploration and production.

## **5. OPERATING AND FINANCIAL REVIEW**

Information on the operations and financial position of the Group and its strategies and prospects is set out in the Review of Operations at the beginning of this Annual Report.

### **Significant changes in the state of affairs**

Other than the matters discussed in section 8 of the Directors Report and changes to the Board of Directors as noted in section 1, there have been no other significant changes in the state of affairs for the entity.

## **6. DIVIDENDS**

The Directors recommend that no dividend be provided for the year ended 31 December 2021 (2020: Nil).

## **7. LIKELY DEVELOPMENTS**

The Group will continue to pursue its strategy to further develop its exploration portfolio in California, USA, it's portfolio of working interests in relation to production assets in Alberta, Canada, and its recently acquired working interest in Molasse Basin, Austria, whilst also assessing any other viable global oil and gas exploration opportunities that are presented to the Board.

## **8. EVENTS SUBSEQUENT TO REPORTING DATE**

There have been no matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the Company, the results of these operations, or the state of affairs of the Company in future financial years.

## **9. ENVIRONMENTAL REGULATION**

The Group is subject to significant environmental regulation in relation to its exploration activities. It aims to ensure that the highest standard of environmental care is achieved, and that it complies with all relevant environmental legislation. The Directors are not aware of any breaches during the period covered by this report.

## **10. SHARE OPTIONS**

### **Unissued shares under options**

At the date of this report unissued ordinary shares of the Company under option are:

<b>Expiry date</b>	<b>Exercise price cents</b>	<b>Number of shares</b>
31-Dec-22	0.5	<u>75,000,000</u>

All unissued shares are ordinary shares of the Company.

These options do not entitle the holder to participate in any share issue of the Company.

Further details in relation to the share-based payments to directors are included in the Remuneration Report.

### **Shares issued on exercise of options**

During the financial year, 15,000,000 shares were issued as a result of the exercise of options at an exercise price of 0.5 cents per share. Since the end of the financial year, no options have been converted into fully paid ordinary shares.

### **Options expired**

During the reporting period, no options expired unexercised (31 December 2020: 47,000,000 options expired).

## **11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS**

During the financial year, the Company paid an insurance premium of \$40,545 (2020: \$32,099) to insure the Directors and Key Management of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

The Group has agreed to indemnify each of the Directors and the Company Secretaries of the Company and its controlled entities, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors and Company Secretaries of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

No agreements have been entered into to indemnify the Group's auditors against any claims by third parties arising from their report on the Annual Financial Statements.

## **12. NON-AUDIT SERVICES**

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of these non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the remuneration for non-audit services provided by the auditor of the Company, BDO Audit (WA) Pty Ltd, and its related practices during the year are set out below:

	<b>2021</b> \$	<b>2020</b> \$
<b>Taxation services</b>		
<b><i>BDO Corporate Tax (WA) Pty Ltd</i></b>		
Tax compliance and advisory services	20,623	9,270
<b>Total remuneration for non-audit services</b>	<b>20,623</b>	<b>9,270</b>

## **13. PROCEEDINGS ON BEHALF OF THE GROUP**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

## **14. REMUNERATION REPORT - AUDITED**

The Directors present the Company's 2021 Remuneration Report prepared in accordance with the Corporations Act 2001. The Report sets out the detailed remuneration information for Non-Executive Directors, Executive Directors and other Key Management Personnel (KMP) of the Group.

The report contains the following sections:

- Remuneration governance
- Remuneration consultants
- Executive remuneration strategy and framework
- Board and management changes
- Service contracts
- Non-executive director remuneration
- Key management personnel remuneration
- Analysis of bonuses included in remuneration
- Other KMP disclosures
- Voting and comments made at the Company's 2020 Annual General Meeting

## **14. REMUNERATION REPORT – AUDITED (continued)**

### **(a) Remuneration governance**

Decisions and determinations regarding remuneration of Directors and Key Management Personnel is the responsibility of the Remuneration and Nomination Committee.

### **(b) Remuneration consultants**

The Company did not engage any remuneration consultants during the year as it was not considered necessary. No changes were made to the remuneration of directors.

### **(c) Executive remuneration strategy and framework**

Remuneration is referred to as compensation throughout this report.

Compensation levels for key management personnel of the Group are set to attract, retain and motivate appropriately qualified and experienced Directors and Executives.

As the Group's principal activities during the year were new ventures and exploration / evaluation, measurement of remuneration policies against financial performance is not considered relevant. The measurement of remuneration policies considered a range of factors including budget performance, delivery of results and timely completion of development programmes.

The objective of the Group's reward framework is to ensure that remuneration policies and structures are fair and competitive. The Board ensures that remuneration satisfies the following criteria for reward:

- competitiveness and reasonableness;
- transparency;
- attracts and retains high calibre executives; and
- rewards capability and experience.

#### ***Executive remuneration mix***

The remuneration of a Managing Director or any other KMP can be structured as a mix of fixed remuneration and variable "at risk" remuneration through short-term and long-term incentive components.

#### ***Fixed compensation***

Fixed compensation consists of base compensation plus employer contributions to superannuation funds (unless otherwise stated). Compensation levels are reviewed annually by the Board through a process that considers individual and overall performance of the Group and compares compensation to ensure it is comparable and competitive within the market in which the Group operates.

Fixed compensation is not "at risk" but is appropriately benchmarked and set with reference to role, responsibilities, skills and experience.

#### ***Performance-linked compensation***

Performance-linked compensation can consist of both short-term and longer-term remuneration. Performance linked remuneration is not based on specific financial indicators such as earnings or dividends as the Group continues to focus upon efforts in the exploration and development stage of projects. Vesting of long-term incentives is based on the share price performance of the Group, which is considered an appropriate measure of the outcome of overall performance. There is no separate profit-share plan.

#### ***Long-term incentive***

Long-term incentives (LTIs) can comprise share options and/or performance rights (PRs), which are granted from time to time to encourage sustained performance in the realisation of strategic outcomes and growth in shareholder value. Options and rights are granted for no consideration and do not carry voting rights or dividend entitlements.

#### **14. REMUNERATION REPORT – AUDITED (continued)**

##### ***Consequences of performance on shareholder wealth***

The overall level of key management personnel compensation takes into account the performance of the Company over a number of years, although no remuneration is directly linked with financial performance.

##### **(c) Executive remuneration strategy and framework (continued)**

Financial performance in respect of the current financial year and the previous four financial years is detailed below:

<b>Shareholder returns</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Total Comprehensive Loss for year (\$)	(4,493,191)	(646,076)	(715,275)	(1,284,540)	(3,270,547)
Basic EPS (cents)	(0.16)	(0.04)	(0.06)	(0.16)	(0.49)
Share price at year end (cents)	0.4	0.5	0.3	0.2	1.20
Market capitalisation (\$)	12,860,727	9,056,204	4,276,473	2,280,981	9,401,891
Net tangible assets / (liabilities) (\$)	3,802,235	704,300	(105,189)	55,925	340,138
NTA Backing (cents)	0.12	0.04	(0.00)	0.01	0.04

During the financial years noted there were no dividends paid or other returns of capital made by the Company to shareholders.

The Group's financial performance is impacted by a number of factors. As the Group continues to have a predominant focus upon exploration activities, the share price and thus the Company's market capitalisation is still considered to be a strong indicator of the Group's overall performance. Cash flows from the operation of producing interests are utilised to fund these exploration activities, rather than the Company being reliant on shareholder funding to the same degree it has historically.

##### **(d) Board and management changes**

During the year, Mr Andrew Childs was appointed Executive Chairman from his pre-existing role as Non-executive Director. Mr David McArthur was appointed as Non-executive Director, ceasing his position as Interim Managing Director.

##### **(e) Service contracts**

On appointment to the Board, all Non-Executive Directors enter into a letter of appointment with the Company specifying their functions and duties as a Director.

Executive remuneration and other terms of contractual employment are formalised in service agreements. The service agreements outline the components of compensation paid to Executives and key management personnel (KMPs) but do not prescribe how compensation levels are modified year by year. Compensation levels are reviewed each year to take into account cost of living changes, any change in the scope of the role performance by KMPs and any changes required to meet the principles of the compensation policy.

**14. REMUNERATION REPORT – AUDITED (continued)**

**(f) Non-Executive Directors**

Total compensation for all Non-Executive Directors, last voted upon by shareholders on 19 May 2011, is not to exceed \$400,000 per annum and is based on comparative roles in the external market. The base fee for all Non-Executive Directors, including the Chairman, for the year ended 31 December 2021 was \$36,000 per annum. Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed by the Remuneration and Nomination Committee and they do not receive cash performance related compensation.

In addition to their base fees, Non-Executive Directors may also receive payment for consultancy services at \$1,500 per day plus reimbursable expenses for days worked over and above those expected to be worked in consideration of Non-Executive Directors fees. The contracts have a 12 months' termination clause.



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**14. REMUNERATION REPORT – AUDITED (continued)**

**(f) (i) Key management personnel remuneration 2021**

Name	Short-term employee benefits				Post- employment benefits	Share based payments		
		Salary and fees	Non-monetary benefits	Total	Superannuation	Shares	Options	Total
		(A)	(B)				(C)	
		\$	\$	\$	\$	\$	\$	\$
<b>Executive Directors</b>								
David McArthur <sup>1</sup>	2021	33,380	7,183	40,563	1,700	-	220,664	262,927
	2020	71,158	10,719	81,877	3,530	-	-	85,407
Andrew Childs <sup>2</sup>	2021	15,368	6,332	21,700	1,498	-	-	23,198
	2020	-	-	-	-	-	-	-
<b>Non-Executive Directors</b>								
Andrew Childs <sup>2</sup>	2021	17,434	7,183	24,617	1,700	-	220,664	246,981
	2020	21,918	7,351	29,269	2,082	-	-	31,351
Greg Channon	2021	36,000	13,515	49,515	-	-	126,095	175,610
	2020	9,000	3,310	12,310	-	-	-	12,310
David McArthur <sup>1</sup>	2021	29,422	6,332	35,754	1,498	-	-	37,252
	2020	-	-	-	-	-	-	-
<b>Total key management personnel remuneration</b>								
	2021	131,604	40,545	172,149	6,396	-	567,423	745,968
	2020	125,834	32,099	157,933	5,612	-	-	163,545

<sup>1</sup> David McArthur received \$30,000 in remuneration for Company Secretarial services provided to the Company (2020: \$37,500). Mr McArthur became a Non-executive Director on 14 July 2021.

<sup>2</sup> Andrew Childs was appointed as Executive Chairman on 14 July 2021. Previous to this, Mr Childs held the position of Non-executive Director.

#### **14. REMUNERATION REPORT – AUDITED (continued)**

##### **(f) Key management personnel remuneration (continued)**

##### ***Notes in relation to the table of Directors' remuneration***

(A) Includes movements in annual leave accrual for Executive Director.

During the reporting period certain key management persons invoiced for commercial, arms-length consulting services in addition to duties required as Directors. The total quantum of these transactions as disclosed in note 23 of the notes to the consolidated financial statements was:

- David McArthur                      \$96,000 (2020: \$72,000)
- Andrew Childs                      \$20,000 (2020: \$24,000)
- Greg Channon                      \$8,750 (2020: \$nil)

(B) Comprises Directors and Officers insurance premiums.

(C) The fair value of options granted was determined using the Black-Scholes method at grant date. 90,000,000 options were issued to Directors during 2021, as approved by shareholders at the January 2021 General Meeting (2020: nil).

##### **(g) Analysis of bonuses included in remuneration**

No short-term incentive cash bonuses have been awarded as remuneration to Directors of the Company for year ended 31 December 2021 (2020: nil).

##### **(h) Other KMP disclosures**

All options refer to options over ordinary shares of Xstate Resources Limited, which are exercisable on a one-for-one basis under the Employee Share Option Scheme.

##### ***Options over equity instruments granted as compensation***

During the reporting period, 90,000,000 options were issued to Directors of the Company (2020: nil). Details of this option issuance are disclosed in note 20 to the financial statements.

##### ***Exercise of options granted as compensation***

During the reporting period, 15,000,000 shares were issued on the exercise of options previously granted as compensation. The option exercise price was 0.5 cents per share. No amounts are unpaid on any shares issued on option conversion.

##### ***Options over equity instruments***

The movement during the reporting period, by number of options over ordinary shares of Xstate Resources Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 January 2021	Granted	Expired / Lapsed	Exercised / Sold	Held at 31 December 2021	Vested and exercisable 31 December 2021
David McArthur	-	35,000,000	-	(12,500,000)	22,500,000	22,500,000
Andrew Childs	-	35,000,000	-	(10,000,000)	25,000,000	25,000,000
Greg Channon	-	20,000,000	-	-	20,000,000	20,000,000

#### **14. REMUNERATION REPORT – AUDITED (continued)**

##### **(h) Other KMP disclosures (continued)**

###### **Convertible Notes**

The movement during the reporting period in the number of convertible notes, each note convertible into 500,000 fully paid ordinary shares of Xstate Resources Limited, held directly, indirectly or beneficially, by each key management person, including their related parties is as follows:

	Held at 1 January 2021	Acquired	Converted	Held at 31 December 2021
David McArthur	-	-	-	-
Andrew Childs	-	-	-	-
Greg Channon	10	-	(10)	-

###### **Movements in shares**

The movement during the reporting period in the number of ordinary shares in Xstate Resources Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 January 2021	Purchases / Conversions	Sales	Held at 31 December 2021
David McArthur	24,993,699	13,000,000 <sup>1</sup>	(9,000,000)	28,993,699
Andrew Childs	4,200,000	16,000,000	(4,200,000)	16,000,000
Greg Channon	-	5,284,930 <sup>2</sup>	-	<b>5,284,930</b>

<sup>1</sup> David McArthur received 8,000,000 shares in lieu of fees outstanding as approved by shareholders at the January 2021 General Meeting. The share issuance was in settlement of \$20,000 of consulting fees outstanding at 30 November 2020. The deemed issue price for these shares was 0.25 cents per share. For accounting purposes, the share price as at the date of shareholder approval has been utilised in recognising settlement of liability, being 0.7 cents per share. A difference of \$36,000 was recognised in the P&L.

<sup>2</sup> Greg Channon received 5,284,930 shares upon conversion of outstanding convertible notes in February 2021. Conversion of the note resulted in issuance of 5,000,000 shares as conversion of principle, and 284,930 in payment of interest accrued.

##### **(i) Voting and comments at the Company's 2021 Annual General Meeting**

The Company received 100% of "for" votes on its remuneration report for the 31 December 2020 financial year. The Company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration practices.

**THIS IS THE END OF THE REMUNERATION REPORT – AUDITED.**

**15. LEAD AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001, is included in the Directors' Report for the financial year ended 31 December 2021.

This Directors' Report is made in accordance with a resolution of the Directors.

A handwritten signature in dark ink, appearing to read 'A Childs', with a stylized flourish extending from the bottom right.

**ANDREW CHILDS**

Executive Chairman

Signed at Perth, Western Australia this 31<sup>st</sup> day of March 2022.

DECLARATION OF INDEPENDENCE BY ASHLEIGH WOODLEY TO THE DIRECTORS OF XSTATE  
RESOURCES LIMITED

As lead auditor of Xstate Resources Limited for the year ended 31 December 2021, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Xstate Resources Limited and the entities it controlled during the period.



Ashleigh Woodley  
Director

BDO Audit (WA) Pty Ltd  
Perth, 31 March 2022

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2021**

	Note	2021 \$	2020 \$
<b>Assets</b>			
Cash and cash equivalents	14	724,391	814,876
Trade and other receivables	15	885,988	6,195
Prepayments		43,632	199,781
Inventories		50,747	-
<b>Total current assets</b>		<b>1,704,758</b>	<b>1,020,852</b>
Deposits		-	72,176
Oil and gas assets	16	38,685,399	-
<b>Total non-current assets</b>		<b>38,685,399</b>	<b>72,176</b>
<b>Total assets</b>		<b>40,390,157</b>	<b>1,093,028</b>
<b>Liabilities</b>			
Trade and other payables	17	(159,866)	(163,224)
Current tax liability	12	(278,155)	-
Borrowings		(4,918)	(66,709)
Employee benefits		(1,637)	(105,937)
Site restoration provision	18	(1,200,149)	-
<b>Total current liabilities</b>		<b>(1,644,725)</b>	<b>(335,870)</b>
Site restoration provision	18	(34,899,566)	(52,858)
<b>Total non-current liabilities</b>		<b>(34,899,566)</b>	<b>(52,858)</b>
<b>Total liabilities</b>		<b>(36,544,291)</b>	<b>(388,728)</b>
<b>Net assets</b>		<b>3,845,866</b>	<b>704,300</b>
<b>Equity</b>			
Share capital	19	58,083,830	50,427,398
Reserves		658,280	624,060
Accumulated losses		(54,896,244)	(50,347,158)
<b>Total equity attributable to equity holders of the Company</b>		<b>3,845,866</b>	<b>704,300</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

		<b>2021</b>	<b>2020</b>
		<b>\$</b>	<b>\$</b>
<b>Revenue from operating activities</b>			
Production income	10	8,424,511	-
Other income		250,588	80,813
<b>Expenses</b>			
Cost of sales		(7,003,229)	-
Other operating expenses		(285,790)	(231,731)
Exploration expenditure		(3,106,888)	(122,654)
Personnel expenses	11	(781,968)	(163,545)
Administrative expenses		(115,471)	(49,511)
Professional fees		(202,375)	(124,502)
Depreciation and amortisation	16	(1,104,084)	-
Finance expenses		(477,159)	(29,156)
Other expenses		-	(1,897)
Foreign exchange (gain) / loss		34,871	(5,026)
Other losses		-	(1,483)
<b>Loss before income tax expense</b>		<b>(4,366,994)</b>	<b>(648,692)</b>
Income tax expense	12	(276,663)	(3,742)
<b>Loss for the year</b>		<b>(4,643,657)</b>	<b>(652,434)</b>
<b>Other Comprehensive Income</b>			
Exchange differences on translation of foreign operations		150,466	6,358
<b>Total Comprehensive Loss for the year</b>		<b>(4,493,191)</b>	<b>(646,076)</b>
<b>Loss per share (cents per share)</b>			
Basic and diluted (cents per share)	13	(0.16)	(0.04)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

**XSTATE RESOURCES LIMITED**  
**FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

	Share capital	Foreign currency translation reserve	Options reserve	Convertible note reserve	Accumulated losses	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 January 2021	50,427,398	34,961	-	589,099	(50,347,158)	704,300
<b>Total comprehensive income for the year</b>						
Loss for the year	-	-	-	-	(4,643,657)	(4,643,657)
<b>Other comprehensive income for the year</b>						
Foreign exchange translation difference on foreign operations	-	150,466	-	-	-	150,466
<b>Total comprehensive loss for the year</b>	-	150,466	-	-	(4,643,657)	(4,493,191)
<b>Transactions with owners, recorded directly in equity:</b>						
<b>Contributions by and distributions to owners</b>						
Issue of ordinary shares	5,000,001	-	-	-	-	5,000,001
Share based payment transactions	2,308,969	-	567,423	-	-	2,876,392
Conversion of options	75,000	-	(94,571)	-	94,571	75,000
Interest on convertible notes	-	-	-	4,927	-	4,927
Conversion of convertible notes	594,026	-	-	(594,026)	-	-
Capital raising costs	(321,566)	-	-	-	-	(321,566)
<b>Total contributions by owners</b>	<b>7,656,432</b>	<b>-</b>	<b>472,853</b>	<b>(589,099)</b>	<b>94,571</b>	<b>7,634,757</b>
<b>Balance at 31 December 2021</b>	<b>58,083,830</b>	<b>185,427</b>	<b>472,853</b>	<b>-</b>	<b>(54,896,244)</b>	<b>3,845,866</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



**XSTATE RESOURCES LIMITED**  
**FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

	Share capital	Foreign currency translation reserve	Options reserve	Convertible note reserve	Accumulated losses	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 January 2020	49,560,932	28,603	457,416	-	(50,152,140)	(105,189)
<b>Total comprehensive income for the year</b>						
Loss for the year	-	-	-	-	(652,434)	(652,434)
<b>Other comprehensive income for the year</b>						
Foreign exchange translation difference on foreign operations	-	6,358	-	-	-	6,358
Total other comprehensive income for the year	-	6,358	-	-	-	6,358
<b>Total comprehensive loss for the year</b>	-	6,358	-	-	(652,434)	(646,076)
<b>Transactions with owners, recorded directly in equity:</b>						
<b>Contributions by and distributions to owners</b>						
Issue of ordinary shares	952,500	-	-	-	-	952,500
Equity component convertible notes	-	-	-	589,099	-	589,099
Expiry of options	-	-	(457,416)	-	457,416	-
Capital raising costs	(86,034)	-	-	-	-	(86,034)
<b>Total contributions by owners</b>	866,466	-	(457,416)	589,099	457,416	1,455,565
<b>Balance at 31 December 2020</b>	50,427,398	34,961	-	589,099	(50,347,158)	704,300

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 \$	2020 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		1,158,810	-
Payments to suppliers and employees		(1,037,562)	(493,540)
Payments for exploration, evaluation and development		(3,161,566)	(572,321)
Interest paid		(3,455)	(979)
Income taxes paid		(4,492)	(3,742)
Government grants received		-	20,000
<b>Net cash used in operating activities</b>	14	<b>(3,048,265)</b>	<b>(1,050,582)</b>
<b>Cash flows from investing activities</b>			
Payments for production interest acquisitions		(1,738,699)	(32,397)
<b>Net cash used in investing activities</b>		<b>(1,738,699)</b>	<b>(32,397)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares and options	20	5,075,001	905,000
Proceeds from issue of convertible notes	20	-	562,000
Payment of capital raising costs		(321,566)	(98,684)
Proceeds from borrowings		-	25,903
Repayment of borrowings		(108,533)	(33,766)
<b>Net cash from financing activities</b>		<b>4,644,902</b>	<b>1,360,453</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(142,062)</b>	<b>277,474</b>
Cash and cash equivalents at 1 January		814,876	540,495
Effect of exchange rate fluctuations on cash held		51,577	(3,093)
<b>Cash and cash equivalents at 31 December</b>	14	<b>724,391</b>	<b>814,876</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**1 GENERAL INFORMATION**

The Company is a for-profit, listed public company domiciled in Australia. The Company's registered office is located at Level 1, 31 Cliff Street, Fremantle, WA, 6160.

The Group is primarily involved in oil and natural gas exploration, having exploration interest in the United States of America and Austria. The Group also holds a working interest in oil and natural gas production assets in Canada.

The consolidated financial statements of the Group as at and for the year ended 31 December 2021 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and were authorised for issue by the Board of Directors on 31 March 2021. The financial statements are general purpose financial statements which:

- have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards ("AASBs") and other authoritative pronouncements of the Accounting Standards Board ("AASB"). The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- have been prepared on a historical cost basis, except for share-based payments and financial assets which are measured at fair value. The basis of measurement is discussed further in the individual notes;
- are presented in Australian Dollars, being the Company's functional currency;
- adopt all new and revised Australian Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 January 2021; and
- do not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but not yet effective.

**2 BASIS OF CONSOLIDATION**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

**3 GOING CONCERN**

The consolidated financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activities and realisation of assets and settlement of liabilities in the normal course of business.

At balance date, the Group had net assets of \$3,845,866 (2020: \$704,300), working capital of \$60,033 (2020: \$684,982) and receivables of \$885,988 (2020: \$6,195). During the year ended 31 December 2021, the Group recorded overall cash outflows from Operating Activities of \$3,048,265 (2020: \$1,050,482).

During the financial year, the Group has received cash inflows totalling \$1,158,810 from oil and gas production operations in Canada, and at year end has a net receivable balance from these operations of \$879,512.

### **3 GOING CONCERN (continued)**

Despite ongoing operations in Canada and increased oil and gas prices, the conditions noted indicate a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Company acknowledges the need to source further funding above what is represented at 31 December 2021 to be able to meet planned and committed operating expenditures and discharge its current liabilities. The Directors are confident of being able to source these funds and this is predicated on several factors, namely:

- Continued positive cash flow from oil and gas production operations in Canada;
- The ability to raise capital from existing shareholders or a placement to sophisticated investors, should the above not prove sufficient for expenditures; or
- Via successful sale of rights to exploration or production assets held by the Group.

The Directors are confident that the operations in Canada will sufficiently fund all operations for the current year. In conjunction with this, subsequent to the reporting date, there has been a significant increase identified in world oil and gas pricing.

Should, for any reason, the Group be unsuccessful in sourcing further funding, there is a material uncertainty that exists that may cast significant doubt as to whether the Group will be able to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. In this instance, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Group not continue as a going concern.

### **4 FOREIGN CURRENCY TRANSLATION**

The financial report is presented in Australian dollars, which is Xstate's functional and presentation currency.

#### *Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing on the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial period and exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### *Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency translation reserve in equity.

The foreign currency translation reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

### **5 IMPAIRMENT**

#### **Non-financial assets**

At each reporting date, the Group reviews the carrying amount of its non-financial assets, other than deferred tax assets, to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that

reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

## **6 ACCOUNTING JUDGEMENTS AND ESTIMATES**

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment are included in the following notes:

### ***Judgements***

#### ***Going concern - note 3***

#### ***Critical accounting estimates and assumptions***

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The most significant estimates and assumptions that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities relate to:

#### ***Reserve estimates***

The estimated quantities of proven and probable hydrocarbons reported by the Group are integral to the calculation of depletion expense, assessments for impairment of assets, provision for restoration and the recognition of deferred tax assets due to changes in expected future cash flows. Reserve estimates require interpretation of complex and judgement geological and geophysical models in order to make an assessment of the size, share, depth and quality of a reservoir, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Reserve estimates are prepared in accordance with guidelines prepared by the Society of Petroleum Engineers.

#### ***Depletion of Oil and Gas assets (note 16)***

The Group recognises depreciation on its Oil and Gas assets on a unit-of-production basis that is considered proportional to the depletion of proven and probable hydrocarbon reserves for the field. Oil and gas assets are depreciated by area of interest in the proportion of actual production for the financial period to the proven and probable hydrocarbon reserves of the field. As such, the estimate of reserve quantities directly impacts the calculation of depreciation recognised on the Company's Oil and Gas assets.

#### ***Provisions for site restoration (note 18)***

The Group estimates the future removal and restoration costs of petroleum production facilities, wells, pipelines and related assets at the time of installation of the assets, or at the time of acquisition of the assets, and reviews these assessments periodically. In most instances, the removal of these assets will occur well into the future. The estimate of future removal costs therefore requires management to make judgements around the timing of the required restoration, rehabilitation and decommissioning, as well as the discount rate. The carrying amount of the provision for restoration is disclosed in note 18. As the provision for restoration identifies the cost of decommissioning, this cost is recognised under AASB 116 as forming part of the asset value recognised in note 16. As such, the estimation of provisions for restoration directly impact the value of oil and gas assets presented.

Following the significant volatility in yields and inflation rates seen throughout the course of the financial year, the Group revised the discount and inflation rate used in quantifying the restoration provisions from amounts recognised upon acquisition of the oil and gas working interests during the financial year.

## **6 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**

### ***Critical accounting estimates and assumptions (continued)***

#### ***Share-based payments (note 20)***

Share-based payment transactions with Directors, employees and consultants are measured by reference to the fair value of the securities at the date they were granted. The fair value of the expense to be recognised in the statement of comprehensive income is ascertained using an appropriate pricing model, generally a Black-Scholes pricing mechanism, depending on the terms and conditions upon which the equity securities were granted. The Group also applies assumptions around the likelihood of such securities vesting which will have an impact on the expense recorded during the financial year. The total number of equity securities outstanding is disclosed in the Director's Report, and the measurement of share-based payments entered into during the financial period are disclosed in note 20.

#### ***Recoverability of deferred tax assets (note 12)***

The recoverability of deferred tax assets is based on the probability that future taxable amounts will be available to utilise those temporary differences and losses. The Group has not recognised deferred tax assets in respect of some tax losses and temporary tax differences as the future utilisation of these losses and temporary tax differences is not considered probable at this point in time. Assessing the future utilisation of tax losses and temporary tax differences requires the Group to make significant estimates related to expectations of future taxable income.

Estimates of future taxable income are based on forecast cash flows from operations and application of existing tax laws. To the extent that future utilisation of these tax losses and temporary tax differences becomes probable, this could result in significant changes to deferred tax assets recognised, which would in turn impact future financial results. The deferred tax asset associated with historical losses recorded in the Group's Australian parent entity continue not to be recognised on the basis that it is not expected that the Group's Australian-based operations would generate sufficient taxable profits to fully utilise those losses recorded.

#### ***Allowance for expected credit losses***

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates and forward-looking information that is available. The allowance for expected credit losses is calculated based on the information available at the time of preparation. The actual credit loss in future years may be higher or lower.

## **7 NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED**

There were no new and revised Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that were considered relevant to the Group's operations and effective for the financial year ended 31 December 2021.

There are no other Australian Accounting Standards that are not yet effective and that are expected to have a material impact on the Group in the current or future financial years.

## **8 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory have not been early adopted by the Group for the annual reporting period ended 31 December 2021. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

## **9 OPERATING SEGMENTS**

### **Information about reportable segments**

The Group is organised into three segments based on operations performed, and on geography, being:

- Oil & gas exploration activities on-shore United States of America;
- Oil & gas exploration activities on-shore Austria; and
- Oil & gas production activities on-shore Canada.

These operating segments are based on the internal reports that are reviewed and utilised by the Board of Directors (who are identified as the Chief Operating Decision Makers (CODM)) in assessing performance of the Group and in determining the allocation of resources. There is no aggregation of operating segments. Any amounts that fall outside of these segments are categorised as “Corporate”.

There has been a change in the basis of segmentation since the 31 December 2020 accounts with the addition of oil & gas production activity following the acquisition of working interests in Canadian producing assets during 2021, and the separation of oil & gas exploration activities between USA and Austria upon commencement of exploration activities in Austria late 2021.

### **Segment information provided to the CODM**

<b>31 December 2021</b>	<b>Oil &amp; gas exploration USA</b>	<b>Oil &amp; gas exploration AUT</b>	<b>Oil &amp; gas production</b>	<b>Corporate</b>	<b>Eliminations</b>	<b>Total</b>
<b>Key segment P&amp;L information</b>						
Revenue from external customers	27,402	-	8,647,697	-	-	<b>8,675,099</b>
<b>Profit / (loss) before tax</b>	<b>(2,136,191)</b>	<b>(993,053)</b>	<b>195,393</b>	<b>(1,066,945)</b>	<b>(366,198)</b>	<b>(4,366,994)</b>
Exploration expenditure	2,113,835	993,053	-	-	-	<b>3,106,888</b>
Depreciation and amortisation	-	-	1,104,083	-	-	<b>1,104,083</b>
<b>Segment balance sheet info</b>						
Current assets	1,464	16,432	1,421,436	265,426	-	<b>1,704,758</b>
Non-current assets	-	-	38,685,399	-	-	<b>38,685,399</b>
<b>Total Assets</b>	<b>1,464</b>	<b>16,432</b>	<b>40,106,835</b>	<b>265,426</b>	<b>-</b>	<b>40,390,157</b>

9 OPERATING SEGMENTS (continued)

	Oil & gas exploration USA	Oil & gas exploration AUT	Oil & gas production	Corporate	Eliminations	Total
<b>31 December 2021 (continued)</b>						
Current liabilities	(68,115)	-	(1,478,304)	(98,306)	-	(1,644,725)
Non-current liabilities	(56,107)	-	(34,843,459)	-	-	(34,899,566)
<b>Total Liabilities</b>	<b>(124,222)</b>	<b>-</b>	<b>(36,321,763)</b>	<b>(98,306)</b>	<b>-</b>	<b>(36,544,291)</b>
<b>31 December 2020</b>						
<b>Key segment P&amp;L information</b>						
Revenue from external customers	80,813	-	-	-	-	80,813
<b>Profit / (loss) before tax</b>	<b>(535,278)</b>	<b>-</b>	<b>-</b>	<b>(342,215)</b>	<b>228,802</b>	<b>(648,691)</b>
Exploration expenditure	122,654	-	-	-	-	122,654
Depreciation and amortisation	-	-	-	208	-	208
<b>Segment balance sheet info</b>						
Current assets	193,787	-	-	827,065	-	1,020,852
Non-current assets	-	-	72,176	-	-	72,176
<b>Total Assets</b>	<b>193,787</b>	<b>-</b>	<b>72,176</b>	<b>827,065</b>	<b>-</b>	<b>1,093,028</b>
Current liabilities	(39,721)	-	-	(296,149)	-	(335,870)
Non-current liabilities	(52,858)	-	-	-	-	(52,858)
<b>Total Liabilities</b>	<b>(92,279)</b>	<b>-</b>	<b>-</b>	<b>(296,149)</b>	<b>-</b>	<b>(388,728)</b>



## **10 PRODUCTION INCOME**

### **Accounting Policy**

#### ***Revenue recognition***

Revenue from sales of oil and natural gas is recognised at the amount that reflects the consideration to which the Group is expected to be entitled. Prices are based on market prices and is recognised based on the actual volumes sold to customers. Revenue is recognised at the point in time when control of the product is transferred to the customer, which is generally when the product is physically transferred at the delivery point agreed upon in the contract and legal title to the product passes to the customer (often via connected pipelines). Where the Group is not the operator of a well, under the terms of the relevant production sharing arrangements, the Group is entitled to its participating share in the crude oil and natural gas, based on the Group's working interest.

Revenue for the year ended 31 December 2021 relates to contracts executed for the sale of crude oil and natural gas. All performance obligations have been met within the year. There is no variable consideration requiring estimation for the year ended 31 December 2021.

The Group did not have contracts that were executed in a prior year, whereby the performance obligations were partially met at the beginning of the year.

The Group's revenue is currently wholly derived from Canadian operations and is disaggregated as such in the Group's segment note disclosure at note 9. The Group's revenue disaggregated by pattern of revenue recognition is as follows.

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>Crude oil sales</b>		
Goods transferred at a point in time	8,139,425	-
<b>Gas sales</b>		
Goods transferred at a point in time	285,086	-
	<b>8,424,511</b>	<b>-</b>

## **11 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS**

### **Accounting Policy**

#### ***Short-term employee benefits***

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### ***Other long-term employee benefits***

The Group's net obligation in respect of long-term employee benefits is the amount of the future benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

## **11 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS (continued)**

The table below sets out personnel costs expensed during the year.

	<b>Note</b>	<b>2021</b> \$	<b>2020</b> \$
Directors' cash remuneration	23	745,968	163,545
Recognition of FV adjustment on share-based payment <sup>1</sup>		36,000	-
		<b>781,968</b>	<b>163,545</b>

<sup>1</sup> Share-based payment expense recognised for issuance of shares to Director relates to the partial settlement of an outstanding liability, as approved by shareholders at the January 2021 General Meeting. This expense represents the fair value differential between the value of services provided and value of shares issued in satisfaction of the liability.

## **12 INCOME TAX EXPENSE**

### **Accounting Policy**

Income tax expense comprises current and deferred tax. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities. Current tax is based on tax rates enacted or substantively enacted at the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used for calculating taxable profits. Deferred tax balances are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set-off.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on substantively enacted rates at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

### **(a) Amounts recognised in profit or loss**

	<b>2021</b> \$	<b>2020</b> \$
<b>Current tax expense</b>		
Income tax expense recognised on profitable operations	272,170	-
Tax losses not brought to account	(106,305)	(223,881)
Income taxes paid	4,493	3,742
<b>Deferred tax benefit</b>		
Origination and reversal of temporary differences	106,305	223,881
<b>Total income tax expense</b>	<b>276,663</b>	<b>3,742</b>

## **12 INCOME TAX EXPENSE (continued)**

### **(b) Reconciliation of effective tax rate**

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Loss for the period	(4,643,656)	(652,434)
Total income tax expense	276,663	3,742
Loss excluding income tax	<b>(4,366,993)</b>	<b>(648,691)</b>
Income tax using the Group's domestic tax rate of 25% (2020: 27.5%)	(1,091,748)	(178,390)
Tax rate differential on non-Australian income	(3,842)	
Non-deductible expenses	1,034,434	95,718
Income taxes paid overseas	4,493	3,743
Adjustment for prior periods	21,342	(102,831)
Timing differences not brought to account	235,813	(38,378)
Tax losses not brought to account	76,171	223,881
	<b>276,663</b>	<b>3,742</b>
<b>Tax Losses</b>		
Unused tax losses for which no deferred tax asset has been recognised	<b>6,335,293</b>	<b>5,926,426</b>
Potential tax benefit at 25% (2020: 27.5%)	<b>1,617,042</b>	<b>1,629,767</b>

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits of up to \$1,617,042 (2020: \$1,629,767) attributed to tax losses have not been brought to account because the directors do not believe it is appropriate to regard realisation of the future income tax benefits as probable.

The benefit of these tax losses will only be obtained if:

- i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- ii) the conditions for deductibility imposed by tax legalisation continue to be complied with;
- iii) no changes in tax legislation adversely affect the Group in realising the benefit; and
- iv) satisfaction of either the continuity of ownership or the same business test.

## **12 INCOME TAX EXPENSE (continued)**

### **(c) Unrecognised deferred tax assets and liabilities**

Deferred tax assets (DTAs) and liabilities have not been recognised in respect of the following items:

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>Deferred tax assets</b>		
Employee benefits	409	29,133
Carry forward tax losses	1,617,042	1,629,767
Site restoration provisions	8,290,029	-
Other	1,048	1,048
	<b>9,908,528</b>	<b>1,659,948</b>
<b>Deferred tax liabilities</b>		
Oil and gas properties	(8,164,342)	-
DTAs not brought to account	<b>1,744,186</b>	<b>1,659,948</b>

## **13 LOSS PER SHARE**

### **(a) Basic loss per share**

Earnings / (loss) per share (EPS) is the amount of post-tax profit or loss attributable to each share.

The calculation of basic loss per share at 31 December 2021 has been based on the loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

Diluted EPS takes into account the dilutive effect of all potential ordinary shares, being share options on issue.

#### ***Loss per share attributable to ordinary shareholders***

	<b>2021</b>	<b>2020</b>
Net loss attributable to ordinary shareholders - \$	(4,643,656)	(652,434)
Issued ordinary shares at 1 January	1,811,240,898	1,425,490,898
Effect of shares issued	1,007,538,990	42,162,568
Weighted average number of ordinary shares at 31 December	<b>2,818,779,888</b>	<b>1,467,653,466</b>
Basic loss per share (cents)	(0.16)	(0.04)
Diluted loss per share (cents) <sup>1</sup>	(0.16)	(0.04)

<sup>1</sup> At 31 December 2021, 75,000,000 options (2020: nil options) were excluded from diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

## **14 CASH AND CASH EQUIVALENTS**

### **Accounting Policy**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### **(a) Reconciliation of cash and cash equivalents**

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	724,391	814,876

The perceived credit risk is low as cash and cash equivalents are with authorised deposit taking institutions.

#### **(b) Reconciliation of cash flows from operating activities**

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Loss for the year	(4,371,466)	(652,434)
Adjustments for:		
Depreciation	1,104,084	209
Insurance premium funding	47,829	33,816
Interest on convertible notes	-	27,099
Unwinding of discount on restoration liabilities	470,123	-
Share-based payments	603,423	-
Loss on disposal of assets	-	1,482
Net profit on foreign exchange translation	(21,157)	24,704
Change in other receivables	(860,880)	(6,195)
Change in prepayments	161,079	(205,301)
Change in inventories	(49,655)	-
Change in other operating assets	-	886
Change in trade and other payables	13,335	(231,460)
Change in interest bearing liabilities	3,890	1,028
Change in employee benefits	(104,300)	(44,416)
Change in provisions	(44,570)	-
<b>Net Cash used in operating activities</b>	<b>(3,048,265)</b>	<b>(1,050,582)</b>

## **14 CASH AND CASH EQUIVALENTS (continued)**

### **(c) Non-cash investing and financing activities**

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Deposit for production interest acquisition	-	39,778
Issue of shares as payment for production interest acquisition	2,252,971	-
Issue of shares as payment for Director liabilities	56,000	47,500

Non-cash investing and financing activities disclosed in other notes are:

- Issue of shares as payment for production interest acquisition – note 16 and note 19
- Issue of shares as payment for outstanding Director liabilities – note 20

## **15 TRADE AND OTHER RECEIVABLES**

### **Accounting Policy**

Trade receivables are recognised initially at the value of the invoice sent to the counter-party and subsequently at the amounts considered recoverable (amortised cost).

The Group applies the AASB 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade and other receivables. To measure expected credit losses on a collective basis, trade and other receivables are grouped based on similar credit risk and aging.

The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's debtors.

As at 31 December 2021, there had been no credit losses in the previous three years from debtors in other receivables, nor were any credit losses recognised from authorised government agencies, therefore, no provision for impairment has been recognised.

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Net production revenue receivable	879,512	-
Authorised government agencies	6,476	-
	<b>885,988</b>	<b>-</b>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 20.

## **16 OIL AND GAS ASSETS**

On 20 November 2020, the Company entered into a binding agreement with Blue Sky Resources Limited (**Blue Sky**) to acquire a 15% Working Interest (**WI**) in the Red Earth producing oil fields in northern Alberta, Canada. The acquisition of the WI was for consideration of C\$300,000 and the issuance of 58.3m fully paid ordinary shares. The Red Earth asset acquisition settled on 21 March 2021. On 22 March 2021, the Company entered into a binding agreement to acquire a further 10% WI in the Red Earth assets for consideration of C\$700,000 and the issuance of 10.14m fully paid ordinary shares.

On 28 January 2021, the Company entered into a binding agreement with Blue Sky to acquire a 10% WI in the Alberta Plains producing oil and gas fields in southern Alberta, Canada. The acquisition of the WI was for consideration of C\$250,000 and 10.9m fully paid ordinary shares. The Alberta Plains asset acquisition settled on 9 February 2021. On 13 July 2021, the Company entered into a binding agreement to acquire a further 25% WI in the Alberta Plains assets for consideration of C\$300,000 and the issuance of 254.52m fully paid ordinary shares. In line with the relevant accounting standards, the Group has treated the acquisitions as asset acquisitions and a share-based payment transaction under AASB 2. The fair value of the assets could not be determined and is therefore based on consideration paid, including cash and equity instruments issued.

### **Accounting Policy**

#### ***Producing Assets***

All costs directly associated with the development and production of oil and natural gas interests are capitalised on an area-by-area basis as oil and natural gas interests if they extend or enhance the recoverable reserves of the underlying assets. Items of property, plant and equipment, which include oil and natural gas production assets, are measured at cost less accumulated depreciation/amortisation and any accumulated impairment losses. Development costs include expenditure for areas where technical feasibility and commercial viability has been determined. The capitalised value of producing assets includes acquisition costs, reactivation and development costs and initial estimates of decommissioning liabilities associated with their operation.

#### ***Depreciation and Amortisation***

Depletion charges are calculated to amortise the capitalised value of carried forward production assets over the life of the estimated Proven plus Probable ("2P") reserves for a hydrocarbon reserve, together with future costs necessary to develop the respective hydrocarbon reserve. The value of oil and natural gas interests is depleted using the units of production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil and natural gas with geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially viable. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proved component of proved and probable reserves are 90 percent and 10 percent, respectively.

#### ***Reserve estimates***

Estimation of reported recoverable quantities of 2P reserves include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape depth and quality of reservoirs and their anticipated recoveries. These factors used to estimate the reserves may change from period to period.

Reserve estimates are used to calculate amortisation of producing assets.

## 16 OIL AND GAS ASSETS (continued)

	Sub-surface assets \$	Surface assets \$	Total \$
Balance as at 1 January 2020	-	-	-
Additions	-	-	-
Depreciation and amortisation	-	-	-
<b>Balance as at 31 December 2020</b>	-	-	-
Acquisitions and additions	3,846,267	198,120	<b>4,044,387</b>
Capitalisation of asset retirement obligation	22,266,487	7,758,698	<b>30,025,185</b>
Depletion of assets	(846,051)	(258,033)	<b>(1,104,084)</b>
Changes in asset retirement obligation estimates	3,470,474	1,140,708	<b>4,611,182</b>
Foreign exchange movements	854,408	254,321	<b>1,108,729</b>
<b>Balance as at 31 December 2021</b>	<b>29,591,585</b>	<b>9,093,814</b>	<b>38,685,399</b>

## 17 TRADE AND OTHER PAYABLES

### Accounting Policy

Trade payables represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid at the end of the month following date of recognition.

	2021 \$	2020 \$
<b>Current</b>		
Trade payables	(119,866)	(147,224)
Other payables and accrued expenses	(40,000)	(16,000)
	<b>(159,866)</b>	<b>(163,224)</b>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 20.



## **18 SITE RESTORATION PROVISIONS**

### **Accounting Policy**

#### **Provisions**

Provisions are determined by discounting the expected future cash flow at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance costs.

#### **Site restoration**

In accordance with applicable legal requirements, a provision for site restoration in respect of contaminated and disturbed land, and the related expense, is recognised when the land is contaminated or disturbed. The site restoration provision represents the present value of decommissioning and site restoration costs relating to oil and gas properties.

At each reporting date the site rehabilitation provision is re-measured to reflect any changes in discount rates and timing or amounts of the costs to be incurred. Such changes in the estimated liability are accounted for prospectively from the date of the change and re-added to, or deducted from, the related asset where it is possible that future economic benefits will flow to the entity.

Site restoration provisions have been disaggregated based upon geography due to differing jurisdictional requirements.

#### **California, United States**

The joint-venture operator, Sacgasco Limited (**ASX:SGC**), has lodged a blanket bond to the total of USD\$200,000 with the Californian Department of Conservation and Division of Oil, Gas and Geothermal Resources (DoGGR) in respect of the well licenses held in the Sacramento Basin onshore California area of interest. The blanket bond is for coverage of up to 50 idle wells, a number significantly higher than the amount of idle wells held by the joint-venture at current.

Xstate has taken up a provision balance in respect of its working interest percentage for each of the wells held by the JV, representing the maximum exposure to the Company for restoration and rehabilitation in respect of the well interests held.

#### **Alberta, Canada (Red Earth and Alberta Plains assets)**

The activities of the joint operation in Alberta, Canada (comprising the Group's working interests in the Red Earth assets and the Alberta Plains assets) give rise to dismantling, decommissioning and site disturbance remediation activities which are expected to be incurred through until approximately 2045.

These provisions have been recognised based upon region specific cost estimates provided by the Alberta Energy Regulator (**AER**). The assumptions are based on the current economic environment and are contained within Directive 011 as provide by AER. These estimates are reviewed regularly to take into account any material changes to the assumptions, however, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend upon when the fields cease to produce at an economically viable rate. This, in turn, will depend upon future oil and gas prices, which are considered inherently uncertain.

The significant assumptions used in the calculation of the present value of the provisions are a risk-free rate of 1.63 percent, an inflation rate of 3.4 percent and the assumed timing of cash outflows from 2022 through 2045.

Provisions are made for the estimated cost of asset retirement obligations associated with site restoration and are capitalised to Oil and Gas Assets, as outlined in Note 16, and amortised over the useful life of the assets.

**18 SITE RESTORATION PROVISIONS (continued)**

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Canadian asset retirement obligation	(1,200,149)	-
<b>Non-current</b>		
Canadian asset retirement obligation	(34,843,459)	-
Californian site restoration provision	(56,107)	(52,858)
<b>Total Non-current</b>	<b>(34,899,566)</b>	<b>(52,858)</b>
<b>Total Provision</b>	<b>(36,099,715)</b>	<b>(52,858)</b>

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>Movement in carrying amounts</b>		
Opening balance	(52,858)	(58,083)
Additional provisions recognised - Canada	(30,025,185)	-
Rehabilitation works performed	44,570	-
Unwinding of discount	(470,123)	-
Re-estimation of provision – Canada	(4,611,182)	-
Effects of foreign exchange	(984,937)	5,225
Closing balance	<b>(36,099,715)</b>	<b>(52,858)</b>

## 19 CAPITAL AND RESERVES

### Accounting Policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

### Share capital

	Ordinary shares			
	Number of shares		Amount in \$	
	2021	2020	2021	2020
<b>Movements in ordinary shares on issue:</b>				
<b>On issue at 1 January</b>	<b>1,811,240,898</b>	<b>1,425,490,898</b>	<b>50,427,398</b>	<b>49,560,932</b>
Working capital placement – 0.8 cents	500,000,125	-	4,000,001	-
Working capital placement – 0.4 cents	250,000,000	-	1,000,000	-
Issues of shares for acquisition of oil and gas working interests	333,927,468	-	2,252,971	-
Placement as debt settlement with Directors – 0.25 cents <sup>1</sup>	8,000,000	-	56,000	-
Conversion of options	15,000,000	-	75,000	-
Conversion of convertible notes	297,013,160	-	594,026	-
Private placement of shares at 0.25 cents each to raise working capital	-	362,000,000	-	905,000
Placement at 0.2 cents in partial settlement of debts owed to former Directors	-	23,750,000	-	47,500
Private placement of shares at 0.3 cents each to raise working capital	-	-	-	-
Capital raising costs	-	-	(321,566)	(86,034)
<b>On issue at 31 December</b>	<b>3,215,181,651</b>	<b>1,811,240,898</b>	<b>58,083,830</b>	<b>50,427,398</b>

<sup>1</sup> Issue of shares fair valued accounted at 0.7 cents per accounting standards requirements. Issue price identified in notice of AGM was 0.25 cents per share.

The holders of ordinary shares are entitled to receive dividends as declared from time and are entitled to one vote per share at meetings of the Company. Option holders cannot participate in any new share issues by the Company without exercising their options.

In the event of a winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

All issued shares are fully paid.

## **19 CAPITAL AND RESERVES (continued)**

### **Options**

	Options on issue			
	Number of options		Amount in \$	
	2021	2020	2021	2020
<b>Movements in options on issue:</b>				
<b>On issue at 1 January</b>	-	47,000,000	-	457,416
Issue of options to Directors	90,000,000	-	567,423	-
Exercise of options	(15,000,000)	-	(94,571)	-
Expiry of unlisted options	-	(47,000,000)	-	(457,416)
<b>On issue at 31 December</b>	<b>75,000,000</b>	-	<b>472,852</b>	-

During the reporting period, 15,000,000 shares were issued as a result of the exercise of options. (2020: nil)  
 Since the end of the reporting period, no shares have been issued as a result of the exercise of options.

During the reporting period, no options expired (2020: 47,000,000 options expired).

### **Nature and purpose of reserves**

#### ***Options reserve***

The options reserve represents the fair value of shares to be issued to directors, consultants and employees. This reserve will be transferred to capital once the shares have been issued or reversed through retained earnings if the options expire or are cancelled.

#### ***Foreign currency translation reserve***

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operations.

#### ***Convertible note reserve***

During the prior year, the Company raised \$562,000 from the issue of 562 convertible notes on 9 July 2020 for costs associated with well workovers in the Sacramento Basin, as well as for ongoing exploration and production costs and for working capital purposes. As the terms of the notes are such that the notes mandatorily convert into shares on maturity, or earlier if approved by the Board of the Company, the entire amount of principal has been classified as equity. Interest accrued on the notes has also been classified as equity through the reserve.

## **19 CAPITAL AND RESERVES (continued)**

### ***Convertible note reserve (continued)***

The notes were issued on the following terms:

- Notes mature 12 months from the date of issue;
- Notes will convert into fully paid ordinary shares at a conversion price of \$0.002 per share at maturity, or at an earlier time subject to consent of the Company;
- Notes will be unsecured; and
- Notes will bear interest at a rate of 10% per annum, payable quarterly in arrears. Noteholders have the election to be paid interest via share issue at the same price as the Note conversion upon maturity of the Notes.

The notes were converted into 297,013,160 ordinary shares on 3 February 2021 following shareholder approval at the January 2021 General Meeting.

	Notes on issue			
	Number of notes		Amount in \$	
	2021	2020	2021	2020
<b>Movements in notes on issue:</b>				
<b>On issue at 1 January</b>	<b>562</b>	-	<b>589,099</b>	-
Issue of convertible notes	-	562	-	562,000
Interest accrued on notes	-	-	4,927	27,099
Notes converted into shares	(562)	-	(594,026)	-
<b>On issue at 31 December</b>	<b>-</b>	<b>562</b>	<b>-</b>	<b>589,099</b>

## **20 SHARE-BASED PAYMENTS**

### **Accounting Policy**

The Company has the ability to implement an incentive share and option plan for employees and contractors to the Group, via shareholder approval, whereby employees and contractors may receive rights to acquire shares of the Company as remuneration or incentivisation. The grant date fair value of share-based payment awards granted to employees and contractors is recognised as a *personnel expense*, with a corresponding increase in equity, over the period that the employees and contractors become unconditionally entitled to the awards. The Group entered into such share-based payment transactions during the current financial year via options issued to Directors as approved by shareholders at the January 2021 General Meeting.

The Group additionally has the capacity to issue equity securities to suppliers under the ASX Listing Rules as an alternate method of payment for goods or services provided. The grant date fair value of share-based payments awards granted to suppliers is recognised as a separate expense, *share-based payments expense*, with a corresponding increase in equity over the period that the supplier provides the service or becomes unconditionally entitled to the award. The Group did not enter into such share-based payment transactions during the current financial year.

The amounts recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-market vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for difference between expected and actual outcomes.

## 20 SHARE-BASED PAYMENTS (continued)

The share-based payment expense included within the financial statements can be broken down as follows:

	2021 \$	2020 \$
<b>Expensed in personnel expenses (Director remuneration)</b>		
Options issued to Directors	567,423	-
Shares issued to Directors <sup>1</sup>	36,000	-

- 1 Share-based payment expense recognised for issuance of shares to Director relates to the partial settlement of an outstanding liability, as approved by shareholders at the January 2021 General Meeting. This expense represents the fair value differential between the value of services provided and value of shares issued in satisfaction of the liability. Share-based settlement of liabilities with Directors will generally recognise a fair value adjustment due to the timing requirements for approval of issuances to Directors under ASX Listing Rules and ASIC requirements.

At 31 December 2021, a summary of the Company options in issue and not exercised are as follows, excluding any free-attaching options currently in issue. Options are settled by the physical delivery of shares.

Grant date	Vesting date	Expiry date	Exercise price (cents)	Opening balance	Granted during year	Exercised during year	Closing balance	Vested and exercisable
22-Jan-21	22-Jan-21	31-Dec-22	0.5	-	90,000,000	(15,000,000)	75,000,000	75,000,000
<b>Total</b>				-	<b>90,000,000</b>	<b>(15,000,000)</b>	<b>75,000,000</b>	<b>75,000,000</b>
<b>Weighted Average Exercise Price</b>					0.5	0.5	0.5	0.5

The weighted average remaining contractual life of options outstanding at year end was 1 year.

Options granted during the period have been valued using the Black-Scholes Option Valuation model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying shares, current market price of the underlying shares and the expected life of the option. The assumptions used for the grants made in the current financial year have been detailed below.

	<b>Director Options</b>
Number of options	90,000,000
Exercise price (cents)	0.5
Grant date	22-Jan-21
Expiry date	31-Dec-22
Life of the options (years)	1.94
Volatility	224.41%
Risk free rate	0.11%
Fair value at grant date (cents)	0.63
Share price at grant date (cents)	0.7

## **21 FINANCIAL INSTRUMENTS - RISK MANAGEMENT**

### **Accounting Policy**

#### **Classification of financial instruments**

The financial assets and liabilities of the Group are classified into the following financial statement categories in the statement of financial position in accordance with AASB 9 *Financial Instruments*:

- Fair value through Profit or Loss (FVTPL)
- Amortised Cost
- Fair value through Other Comprehensive Income (FVTOCI)

Judgement is required when determining the appropriate classification of the Group's financial instruments. Details on the accounting policies for measurement of the above instruments are set out in the relevant note.

#### **Recognition and de-recognition of financial assets and liabilities**

The Group recognises a financial asset or liability when it becomes a party to the contract. Financial instruments are no longer recognised in the statement of financial position when contractual cash flows expire or when the Group no longer retains control of substantially all the risks and rewards under the instrument.

### **Overview**

The Group has exposure through its operations to the following financial risks:

- Credit risk
- Interest rate risk
- Foreign exchange risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

### **Principal Financial Instruments**

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Cash and Cash Equivalents (note 14)
- Trade Receivables (note 15)
- Trade and other payables (note 17)
- Current tax liability
- Borrowings

### Financial Assets

	<b>Amortised cost</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	724,390	814,876
Trade and other receivables	885,988	6,195
<b>Total Financial Assets</b>	<b>1,610,378</b>	<b>821,071</b>

## **21 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)**

### Financial Liabilities

	<b>Amortised cost</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Trade and other payables	(159,865)	(163,224)
Current tax liability	(278,155)	-
Borrowings	(4,918)	(66,709)
<b>Total Financial Assets</b>	<b>(442,938)</b>	<b>(229,933)</b>

### Financial Instruments not measured at fair value

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, trade and other payables and borrowings.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables and trade and other payables approximates their value.

Due to the nature of the agreements for borrowings, the carrying value approximates their value.

### **General objectives, processes and policies**

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit and Risk Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

### **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. Credit risk arises principally from the Group's receivables from joint operations.

As the Group currently has a minimal amount of transactions, outside of its joint operation in Canada, that result in receivables, the Risk Management Committee has determined it not necessary to establish a credit policy for assessing creditworthiness of customers at this stage.

The carrying amount of financial assets represents the maximum credit exposure.

### **Cash and cash equivalents**

The Group held cash and cash equivalents of \$724,391 at 31 December 2021 (2020: \$814,876). The cash and cash equivalents are held with authorised banking institutions and only with counterparties that have an acceptable credit rating.



## **21 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)**

### **Trade and other receivables**

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected loss rates are based on payment profiles of sales over a period of 36 months prior to 31 December 2021 and the corresponding historical credit losses experienced within this period. The historical rates are adjusted to reflect current and forward-looking information on key factors affecting the ability of counterparties to settle receivables. Management has assessed the collectability of these amounts based on the counterparty relationships and historical payment behaviour and believe that receivables are collectable in full.

On that basis, the loss allowance as at 31 December 2021 was determined as follows for trade receivables:

	<b>Current</b>	<b>&lt;30 days past due</b>	<b>&lt;60 days past due</b>	<b>Total</b>
<b>As at 31 December 2021</b>				
Expected loss rate	0%	0%	0%	
Gross carrying amount	26,486	-	859,502	885,988
Loss allowance	-	-	-	-

At 31 December 2021, there were \$859,502 worth of financial assets considered past due (31 December 2021: \$nil). At the date of this report, a total of \$466,953 has been received in cash, converted from CAD.

### **Liquidity risk**

Liquidity risk arises from the Group's management of working capital, it is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's objective is to ensure, so far as is possible, that it will always have sufficient cash and cash equivalents to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities excluding the impact of netting arrangements:

	<b>Carrying amount \$</b>	<b>Contractual cash flows \$</b>	<b>12 months or less \$</b>
<b>31 December 2021</b>			
<b>Non-derivative financial liabilities</b>			
Trade and other payables	(159,865)	(159,865)	(159,865)
Current tax liabilities	(278,155)	(278,155)	(278,155)
Borrowings	(4,918)	(4,918)	(4,918)
	<b>(442,938)</b>	<b>(442,938)</b>	<b>(442,938)</b>
<b>31 December 2020</b>			
<b>Non-derivative financial liabilities</b>			
Trade and other payables	(163,224)	(163,224)	(163,224)
Borrowings	(66,709)	(66,709)	(66,709)
	<b>(229,933)</b>	<b>(229,933)</b>	<b>(229,933)</b>

The balances above will not always agree to the financial statements as the contractual cash flows above are undiscounted. The carrying amount is the balance as recognised in the statement of financial position.

## **21 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)**

### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. There has been no change to the manner in which the Group manages market risk from the previous year.

### **Foreign exchange risk**

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group operates internationally and is exposed to currency risk on exploration and evaluation activities in the USA and Austria (Euro), and oil and gas production operations in Canada.

The Group manages foreign exchange risk by monitoring forecast cash flows in currencies other than Australian dollars and ensuring that adequate foreign currency balances are maintained or provided for. The objective of the Group's foreign exchange risk management is to ensure its financial viability despite potential periods of unfavourable exchange rates.

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at the reporting date is as follows (denominated below in AUD equivalent as at respective period end exchange rates):

	<b>Assets</b>		<b>Liabilities</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
US dollar	137,041	3,960	(68,114)	(39,616)
Canadian dollar	1,370,688	-	(278,155)	-

### **Foreign currency sensitivity analysis**

The Group is predominantly exposed to US dollar (**USD**), Canadian dollar (**CAD**) and Euro (**EUR**) foreign exchange risk. The sensitivity analysis below includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 2% (31 December 2020: 2%) change in foreign currency rates. A positive number indicates an increase in profit or loss where the Australian dollar strengthens against the respective currency.

	<b>Impact on profit or loss</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>If AUD strengthens by 2% (31 December 2020: 2%)</b>		
USD	(1,379)	713
CAD	(21,851)	-
<b>If AUD weakens by 2% (31 December 2020: 2%)</b>		
USD	1,379	(713)
CAD	21,851	-

From the above analysis, there would be no material impact on other equity of the Company and the Group.

## **21 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)**

### **Market risk (continued)**

#### ***Commodity price risk***

Commodity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market commodity prices for crude oil and natural gas.

The objective of the Group's commodity price risk management is to ensure its financial viability despite potential periods of unfavourable prices. Sensitivity analyses are conducted to evaluate the potential impact of unfavourable prices on the Group's future financial position. The results of these evaluations are used to determine the most appropriate risk mitigation tool to be used.

#### ***Commodity price sensitivity analysis***

The Group is exposed to movements in commodity prices for crude oil and for natural gas. The sensitivity analysis below summarises the impact of increases or decreases on the Group's pre-tax loss for the period based upon movements in commodity prices. A positive number indicates a decrease to loss where the commodity price has increased and a negative number indicates an increase in loss for the year where the commodity price has decreased.

		<b>Impact on profit or loss</b>	
		<b>2021</b>	<b>2020</b>
		<b>\$</b>	<b>\$</b>
<b>Increase in oil price by 20%</b>	<b>(31 December 2020: no assessment)</b>	1,692,804	-
<b>Decrease in oil price by 20%</b>	<b>(31 December 2020: no assessment)</b>	(1,692,804)	-

#### ***Interest rate risk***

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group only has interest rate risk relating to its funds on deposit with banking institutions. All current loans payable by the Group are on terms agreed between the parties and are not subject to change during the life of the agreements. Accordingly, the Group does not hedge its interest rate risk exposure.

#### ***Exposure to interest rate risk***

The interest rate profile of the Group's interest-bearing financial instruments as reported to management of the Group is as follows:

		<b>Carrying amount</b>	
		<b>2021</b>	<b>2020</b>
		<b>\$</b>	<b>\$</b>
<b>Variable rate instruments</b>			
Cash and cash equivalents		724,390	814,876
		<b>724,390</b>	<b>814,876</b>

## **21 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)**

### *Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

### *Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for twelve months ended 31 December 2021.

		Profit or loss	
		100 bp increase \$	100 bp decrease \$
<b>31 December 2021</b>			
Variable rate instruments		7,244	-
Cash flow sensitivity		<b>7,244</b>	-
<b>31 December 2020</b>			
Variable rate instruments		8,109	-
Cash flow sensitivity		<b>8,109</b>	-

At the reporting date the Group did not hold any variable rate financial liabilities.

## **22 RELATED PARTIES**

Key management personnel compensation included in 'Directors' remuneration' (note 11), comprises the following:

	Note	2021 \$	2020 \$
Short term employee benefits		172,149	157,933
Post-employment benefits		6,396	5,612
Share-based payments		567,423	
	9	<b>745,968</b>	<b>163,545</b>

### **Individual Director's and Executives' compensation disclosures**

Information regarding individual Director's and Executive's compensation and some equity instruments disclosures as required by S300A of the Corporations Act and Corporations Regulations 2M.3.03 are provided in the Remuneration report section of the Directors' Report in section 14.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

## **22 RELATED PARTIES (continued)**

### **Other key management personnel transactions**

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these companies transacted with the Company during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions to non-key management personnel related companies on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to Key Management Personnel and entities over which they have control or significant influence were as follows:

			<b>Transactions value year ended 31 December</b>		<b>Balance outstanding as at 31 December</b>	
			<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>KMP</b>	<b>Transaction</b>	<b>Note</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
David McArthur	Management fees	1	96,000	72,000	8,800	9,873
Andrew Childs	Consultancy fees	2	20,000	24,000	-	-
Greg Channon	Consultancy fees	3	8,750	-	-	-
					<b>8,800</b>	<b>9,873</b>

<sup>1</sup> The Group used the management services of Broadway Management (WA) Pty Ltd, a company associated with Mr McArthur, in relation to the provision of bookkeeping, accounting and financial control aspects of the Company's operations. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms. At 31 December 2021 an amount of \$72,875 was due and payable to DAS (Australia) Pty Ltd in relation to Company Secretarial services provided by Mr McArthur (2020: \$72,875). As this falls within his scope as an officer of the Company, it has not been disclosed above as a separate related party transaction as it is disclosed in the Remuneration Report contained within the Directors' Report. As noted in note 20, a liability of \$20,000 outstanding as at 31 December 2020 was settled via issuance of shares as approved at the January General Meeting.

<sup>2</sup> The Group used the consultancy services of Resource Recruitment Pty Ltd, a company associated with Mr Childs, in relation to capital raising services provided to the Group. Amounts were billed based on normal market rates for such services and were due and payable under normal terms.

<sup>3</sup> The Group used the consultancy services of Ruby Lloyd Pty Ltd, a company associated with Mr Channon, in relation to technical oil and gas analysis services provided to the Group, services considered outside the scope of Mr Channon's Director commitments. Amounts were billed based on normal market rates for such services and were due and payable under normal terms.

## 23 SUBSIDIARIES

Details of the Group's material subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Financial year end	Proportion of ownership interest and voting power held by the Group	
				2021 %	2020 %
CalX SELA LLC	Oil and gas exploration	California, USA	31 December	100	100
Xstate (USA) Corp	Oil and gas exploration	California, USA	31 December	100	100
XGas LLC	Oil and gas exploration	California, USA	31 December	100	100
Xstate Texas LLC <sup>1</sup>	Oil and gas exploration	Texas, USA	31 December	-	100
Xstate Energy Ltd <sup>2</sup>	Oil and gas production	Alberta, Canada	31 December	100	-

<sup>1</sup> Xstate Texas LLC was dissolved during October 2021 due to cessation of activity in Texas.

<sup>2</sup> Xstate Energy Limited incorporated on 4 February 2021.

## 24 PARENT COMPANY DISCLOSURES

As at, and throughout the financial year ended 31 December 2021, the parent entity of the Group was Xstate Resources Limited.

	2021 \$	2020 \$
<b>Results of the parent entity</b>		
Total comprehensive loss for the year	(4,219,685)	(809,418)
<b>Financial position of parent entity at year end</b>		
Current assets	281,858	826,870
Total assets	4,145,396	899,046
Current liabilities	(166,419)	(296,254)
Total liabilities	(222,527)	(296,254)
<b>Total equity of the parent entity comprising of:</b>		
Share capital	58,083,830	50,427,821
Reserves	472,852	589,099
Accumulated losses	(54,633,813)	(50,414,128)
<b>Total equity</b>	<b>3,922,869</b>	<b>602,792</b>

Refer to note 27 for contingent liabilities that impact the parent entity.

## **25 SUBSEQUENT EVENTS**

There have been no matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the Company, the results of these operations, or the state of affairs of the Company in future financial years.

## **26 AUDITORS' REMUNERATION**

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>BDO Audit (WA) Pty Ltd</b>		
<i><b>Audit and other assurance services</b></i>		
Audit and review of financial reports	43,636	35,093
Total remuneration for audit and other assurance services	<b>43,636</b>	<b>35,093</b>
<i><b>Taxation services</b></i>		
Tax compliance services	20,623	9,270
<b>Total remuneration of BDO Audit (WA) Pty Ltd and its related parties</b>	<b>64,259</b>	<b>44,363</b>

It is the Group's policy to employ BDO on assignments additional to their statutory audit duties where BDO's expertise and experience with the Group are important. These assignments are principally tax advice, or where BDO is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

<b>Non-BDO audit firms</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<i><b>Audit and other assurance services</b></i>		
Audit and review of financial reports	-	-
Total remuneration for audit and other assurance services	-	-
<i><b>Taxation services</b></i>		
Tax compliance services	4,361	4,828
<b>Total remuneration of non-BDO audit firms</b>	<b>4,361</b>	<b>4,828</b>
<b>TOTAL REMUNERATION OF AUDIT FIRMS</b>	<b>68,620</b>	<b>49,191</b>

## **27 CONTINGENT LIABILITIES**

A contingent liability is a possible obligation arising from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent liability may also be a present obligation arising from past events but is not recognised on the basis that an outflow of economic resources to settle the obligation is not viewed as probable, or the amount of the obligation cannot be reliably measured.

When the Group has a present obligation, an outflow of economic resources is assessed as probable and the Group can reliably measure the obligation, a provision is recognised.

As at the end of the reporting period, the Company has no identifiable contingent liabilities.

## **DIRECTORS' DECLARATION**

1. In the opinion of the Directors of Xstate Resources Limited (the "Company"):
  - (a) the accompanying financial statements and notes are in accordance with the *Corporations Act 2001* including:
    - (i) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the year then ended; and
    - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001*, professional reporting requirements and other mandatory requirements.
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
  - (c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2021.

This declaration is signed in accordance with a resolution of the Board of Directors.



**ANDREW CHILDS**

Executive Chairman

Dated at Perth, Western Australia this 31<sup>st</sup> day of March 2022.



## INDEPENDENT AUDITOR'S REPORT

To the members of Xstate Resources Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Xstate Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2021 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material uncertainty related to going concern

We draw attention to Note 3 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

## Accounting for oil and gas assets

Key audit matter	How the matter was addressed in our audit
<p>At 31 December 2021, the Group held significant carrying value of oil &amp; gas assets as disclosed in Note 16.</p> <p>This is a key audit matter due to the significance of the balance and the judgement required in assessing whether any facts or circumstances exist to suggest that the carrying amount of the asset may exceed its recoverable amount.</p>	<p>Our audit procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"><li>• Assessing the appropriateness and accuracy of the capitalised oil and gas amounts as a result of the acquisition of working interests in producing assets during the year;</li><li>• Obtaining and reviewing available reserve report data from management's experts to determine whether they indicate a significant change that would impact the value of the asset. This included assessing the competency and objectivity of management's experts;</li><li>• Benchmarking and analysing management's oil and gas price assumptions against external market data, to determine whether they indicate a significant change that would impact the value of the asset;</li><li>• Reviewing the Directors' minutes and ASX announcements for evidence of consistency of information with management's assessment of the carrying value;</li><li>• Considering whether there were any other facts and circumstances that existed to indicate impairment testing was required; and</li><li>• Assessing the adequacy of the related disclosures in Note 6 and Note 16 to the financial report.</li></ul>

## Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2021, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

[https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf)

This description forms part of our auditor's report.



## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 19 to 25 of the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of Xstate Resources Limited, for the year ended 31 December 2021, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink. The signature starts with the letters 'BDO' in a stylized, blocky font. Below this, there is a large, fluid, cursive signature that appears to read 'Ashleigh Woodley'.

Ashleigh Woodley

Director

Perth, 31 March 2022

## STOCK EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 15 March 2022:

### 1. Distribution of ordinary shares

Range	Total holders	Ordinary shares	% of issued capital
1 - 1,000	718	80,519	0.002%
1,001 - 5,000	104	285,017	0.009%
5,001 - 10,000	65	534,425	0.017%
10,001 - 100,000	1,256	71,748,253	2.232%
100,001 and over	2,354	3,142,533,437	97.74%
<b>Total</b>	<b>4,497</b>	<b>3,215,181,651</b>	<b>100</b>

There were 2,571 holders of less than a marketable parcel of ordinary shares.

### 2. Substantial shareholders

Shareholders	Number held
Blue Sky Resources Limited	286,172,468

### 3. Voting rights

#### *Ordinary shares*

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll, every member present or by proxy shall have one vote for every share held.

#### *Options and rights*

No voting rights.

### 4. Unlisted options

Grant date	Number	Number of holders	Expiry date	Exercise price (cents)
22-Jan-21	75,000,000	4	31-Dec-2022	0.5

**XSTATE RESOURCES LIMITED**  
**STOCK EXCHANGE INFORMATION**

**5. Twenty largest shareholders**

Shareholders	Ordinary shares	
	Number held	% of issued shares
Blue Sky Resources Limited	286,172,468	8.90%
Suburban Holdings Pty Ltd <The Suburban Super Fund A/C>	59,371,282	1.85%
Citicorp Nominees Pty Limited	38,188,778	1.19%
Mr Teik Tatt Oh	38,000,000	1.18%
Ms Justine Davina Michel <Lambrecht Investment A/C>	33,139,725	1.03%
Ms Xing Liu	30,273,445	0.94%
BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP>	29,314,898	0.91%
Mr Chunghang Li	25,000,000	0.78%
Nova Investment & Trading Pty Ltd	23,743,939	0.74%
Mr William Henry Hernstadt	23,250,000	0.72%
Dr John Tomasich	23,000,000	0.72%
BNP Paribas Nominees Pty Ltd Six Sis Ltd <DRP A/C>	22,292,654	0.69%
Mr David Maxwell McArthur	21,255,566	0.66%
Super MSJ Pty Ltd <MSJ Super Fund A/C>	20,000,000	0.62%
Ms Chun Zeng	19,979,022	0.62%
Hemsby Super Pty Ltd <Hemsby Super Fund <A/C>	18,000,000	0.56%
Petroleum Ventures Pty Ltd	17,569,999	0.55%
Mr Antoni Margos	17,000,000	0.53%
Tegif Pty Ltd	17,000,000	0.53%
HSBC Custody Nominees (Australia) Limited	16,263,416	0.51%

**6. Petroleum lease interests at 15 March 2022**

<b>Project name</b>	<b>Location</b>	<b>Working interest</b>
Anshof 3 Farmin Area	Molasse Basin, Northern Austria	20%
Alvares Appraisal Well	Sacramento Basin Onshore Northern California	25%
Alvares Project	Sacramento Basin Onshore Northern California	30%
Dempsey 1-15 Well	Sacramento Basin Onshore Northern California	10%
Dempsey AMI	Sacramento Basin Onshore Northern California	24%
Rancho-Capay Gas Field	Sacramento Basin Onshore Northern California	10%
Malton Field	Sacramento Basin Onshore Northern California	30%
East Rice East Creek Field	Sacramento Basin Onshore Northern California	10%
Los Medanos Gas Field	Sacramento Basin Onshore Northern California	10%
Dutch Slough Field	Sacramento Basin Onshore Northern California	30%
Denverton Field	Sacramento Basin Onshore Northern California	30%
Red Earth Oil Field	Northern Alberta, Canada	25%
Alberta Plains Oil and Gas Fields	Southern Alberta, Canada	35%

**7. Gold tenements listing at 15 March 2022**

<b>Tenement description</b>	<b>Tenement number</b>	<b>Status</b>	<b>Percentage interest</b>
King Brown	M24/705	Granted	12%