



XSTATE RESOURCES LIMITED

ABN 96 009 217 154

ANNUAL FINANCIAL REPORT

For the year ended 31 December 2022

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CORPORATE DIRECTORY

Directors

Mr Andrew Childs
Mr Greg Channon
Mr Andrew Bald (*appointed 6 June 2022*)
Mr David McArthur (*resigned 6 June 2022*)

Secretaries

Mr David McArthur
Mr Jordan McArthur

Registered and Principal Office

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Postal Address

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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,

I am pleased to present the 2022 Annual Report for Xstate Resources Limited.

With total net production from Canadian assets (before royalty) of 186,825 barrels of oil equivalent (BOE), Xstate marked a cash flow positive year without capital injections for the first time in its history.

The Anshof-3 oil well (XST 20% WI) in the Molasse Basin in Austria, commenced an extended production test on 16 October 2022. The well has produced at a stable gross rate of 113 barrels per day with reservoir performance exceeding expectations in relation to pressure support and deliverability. Water free crude production of 33 degree API has been maintained with no appreciable pressure drop.

Subsequent to year end, the Operator, ADX Energy, has announced the formal granting of a Production Licence for our Anshof Eocene Oil Project by the Austrian Government. The Operator is currently increasing surface storage capacity to enable production to be increased to over 150 barrels per day.

This project has added substantial value to our Company as shown by the Independent Report by RISC, who estimate Xstate's share of 2P Reserves at 1.0 MMbbls with an associated NPV8 of A\$13.4 million.

I am delighted to welcome Mr Andrew Bald to our Board. Andrew is the founder and executive Director of Panthea Capital, a Sydney based corporate advisory company. His 35 years of experience in financial markets is a highly valuable addition to our Board's skill set.

In line with the Board's strategy of growing its Canadian asset base and leveraging off the experience of our local Operator, Blue Sky Resources, on 31 January 2023 we acquired a 25% working interest in two oil discoveries and 10,240 gross acres of underexplored and highly prospective leases adjacent to our Red Earth Area.

This acquisition includes two oil discovery wells, both completed and ready to be brought into production as well as 10 drill ready prospects mapped on proprietary 3D seismic data.

The acquisition cost of C\$750,000 net to Xstate was fully funded out of existing cash reserves.

On behalf of the Board of Xstate, I would like to thank our shareholders for their ongoing patience and enduring support. We look forward to reporting on the Company's activities as we continue to grow our production and asset base.



Andrew Childs

Chairman

REVIEW OF OPERATIONS

Overview

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

The 2022 calendar year built on the significant change in strategic direction for Xstate in 2021. The Company participated in 3 development wells in Canada and 1 exploration well in Austria. Post year-end, on 31 January 2023, the Company acquired further leases adjacent Red Earth from Blue Sky Resources Limited (BSR). The central focus of the acquisition were the 2 oil wells ready to be completed and put into production.

These acquisitions resulted in increased production at our flagship Canadian assets and seeing operational improvements to these assets throughout the course of the year. In addition, the Company added Austrian oil production via our discovery and early production test at Anshof-3.

Xstate continues to use its cashflow to further increase production and fund organic exploration opportunities.

Operational Highlights

- Total Net Production (after Royalty) of 135,515 boe for the year, split:
 - Canada 131,498 boe
 - Austria 1,297 boe
 - California 2,720 boe
- Total Proved and Probable Reserves at 31 December 2022 (net to Xstate) were:
 - Canada 2,133 Mboes
 - Austria 1,000 Mboes
 - 2P TOTAL 3,133 Mboes**
- 10% of the volume of the Canadian gas reserves is gas, based on a gas to boe ratio of 6:1
- 3 Development wells drilled with all brought into production mid-year
- Exploration Discovery at Anshof-3 with Extended Production Test producing at an average stable rate of 113 BOPD gross (23 BOPD net to Xstate) during early 2023.

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

Xstate has an interest in two producing oil and gas producing properties in Alberta, Canada: Red Earth (25% WI) and Alberta Plains (35% WI). Subsequent to year end, Xstate acquired a further 25% working interest in 10,240 acres in the Red Earth area, including two drilled and completed oil development wells that are anticipated to be brought into production in early Q2 2023.

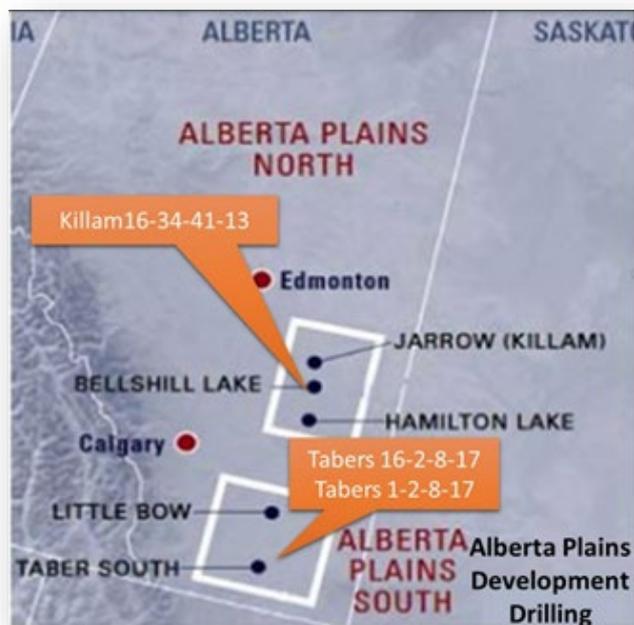
Xstate’s share of Canadian Production for the year was 186,825 BOE (before Royalty).

XST share of Oil and Gas production in Canada	Financial Year 2022 (BOE)	Financial Year 2021 (BOE)
XST WI share of Production (before Royalty)	186,825	111,334
XST WI share of Production (after Royalty)	131,498	97,100

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

Alberta Plains Development Drilling

Xstate participated in a 3 well development program at 35% Working Interest in the Alberta Plains property in Alberta, Canada. All 3 wells were drilled on time and budget and all 3 were put into production.



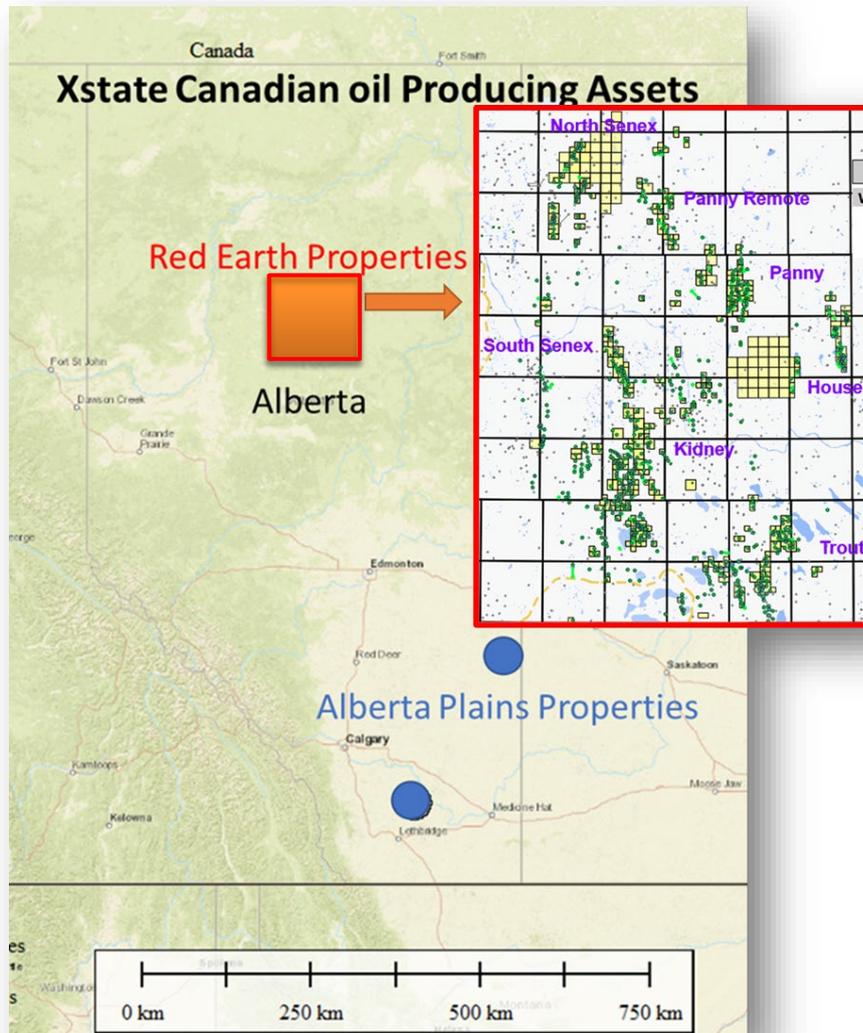
Location of Alberta Plains development wells

Acquisition of Further Red Earth Properties

Subsequent to the year end, Xstate acquired a 25% working interest in 10,240 gross acres (16 sections) for C\$750,000 in a ground floor deal from Blue Sky Resources (BSR), operator of Xstate's Canadian Assets.

The acquisition includes:

1. Two oil discovery wells that have previously been drilled, completed and recovered oil, which are to be imminently equipped and put into production.
2. 10,240 gross acres of unencumbered crown land with no rehabilitation liabilities beyond the existing two wells.
3. 10 Keg River Formation prospects mapped within the acreage have similar technical characteristics to the existing discoveries and fields in the region.
4. Prospects have been identified on a 30km² 3D seismic survey acquired in 2002.



Red Earth Location Map

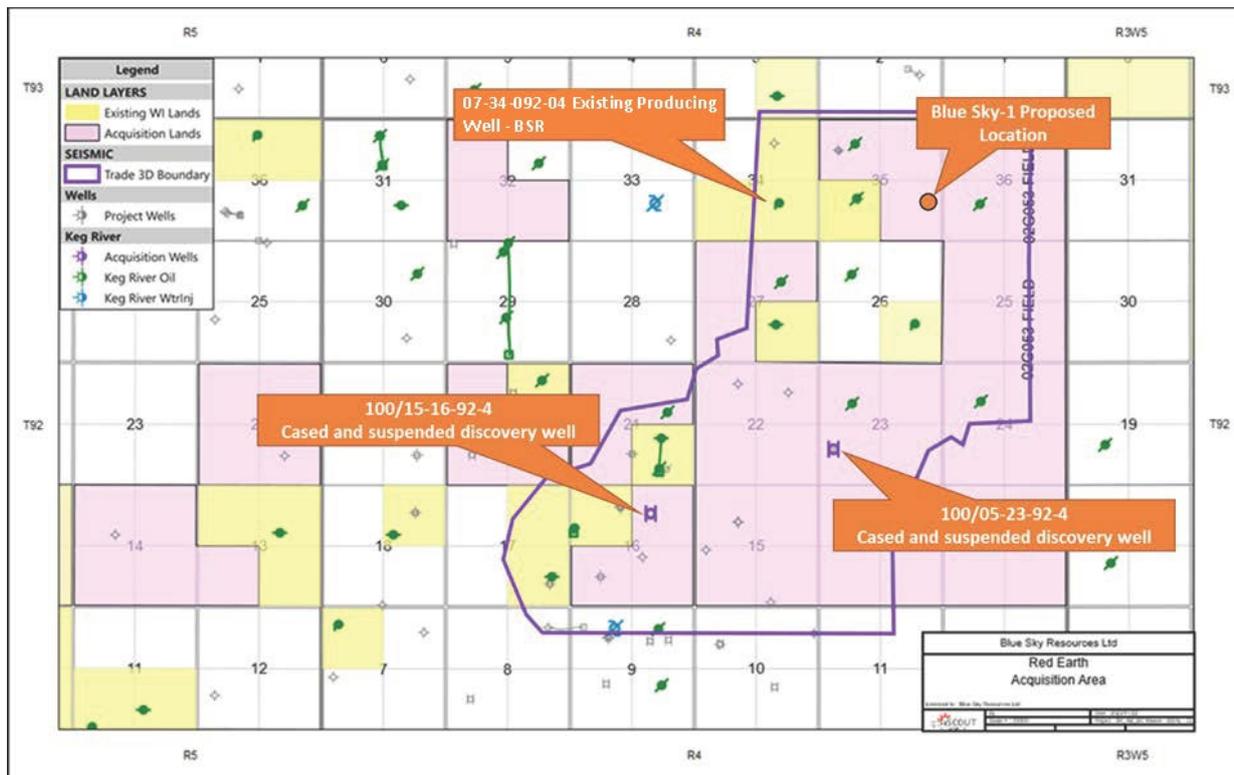
An additional net payment of C\$66,250 per well will be paid should the two discovery wells intended to be put into production achieve a flow rate greater than 100 BOPD each (“**Contingent Success Payments**”).

The acquisition and the exploration drilling can be funded from existing cash balance and cash flows from Xstate’s Canadian assets.

The acquired acreage is adjacent to Xstate’s South Senex leases within its Red Earth asset portfolio. The leases are covered by a 3D seismic survey acquired in 2002 which covers 30km². Only two wells have been drilled on the leases since the 3D was acquired, and both discovered and recovered oil from the Keg River Limestone.

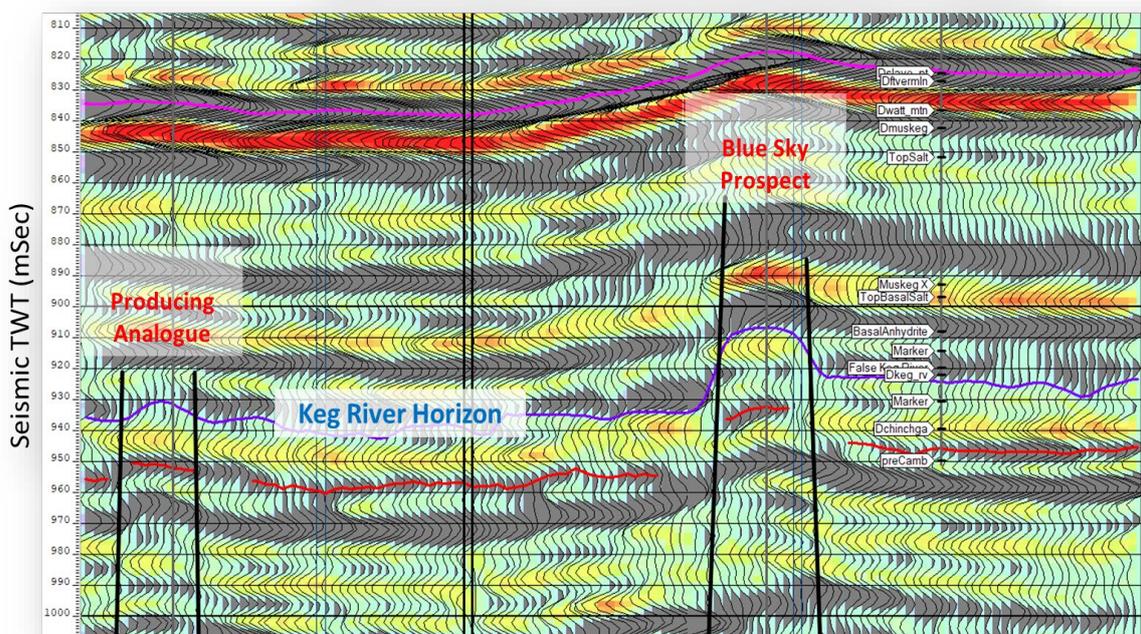
Initial mapping by Operator BSR, has identified a further 10 prospects on the leases. These prospects all show seismic and structural characteristics similar to the two discoveries and fields in the local area in the Keg River reservoirs.

The top priority Blue Sky Prospect is clearly illustrated in the figures below. Drilling depths to the Keg River Targets are less than 1500 metres.



Location of Acquired Wells and Leases- shown in Pink, existing Red Earth leases in Yellow, and 3D seismic outline in Purple.

2002 3D Seismic Survey Showing New Prospect



3D Seismic image over Top Priority Blue Sky Prospect - Producing Analogue on Left of image.

XSTATE RESOURCES LIMITED
REVIEW OF OPERATIONS

For the year ended 31 December 2022

The acquisition increase Xstate's overall lease position in the Red Earth Area to 28,560 net acres.

Total daily production from the Red Earth Area for December was 862 Barrels of Oil per Day (BOPD) gross (211 BOPD net to Xstate). Xstate anticipate this production will grow significantly in the coming year with production from the discovery wells in addition to planned Blue Sky Prospect drilling in 2023.

Canadian Assets Reserve Reports

Independent Reserves Reports were undertaken by Sproule on our Red Earth and Alberta Plains properties. The Report is dated 31 December 2022 and uses the average price deck from that day. It is the first time that Sproule have undertaken the reserves audit for Xstate. Reserves are net to Xstate's working interest, before and after royalty. Xstate's working interest in Red Earth properties is 25%, and in the Alberta Plains properties is 10% before 1 August 2022 and 35% after 1 August 2022. The reserves values presented below as of 31 December 2021 are from the Xstate Annual Report 2021, and are not authored by Sproule.

Red Earth and Alberta Plains Reserves Table 31 Dec 2022 – Sproule (MBOE)	XST Reserves before Royalty (at 31-12-22)	XST Reserves after Royalty (at 31-12-22)	XST Reserves after Royalty (at 31-12-21)
Proved Producing (PDP)	1,166.9	1,067.4	1,062
Proved Developed Not Producing (PDNP)	527.1	471.0	554
Proved Undeveloped (PUD)	74.7	64.7	98
Total Proved (1P) Reserve	1,768.6	1,603.1	1,715
Probable Reserves (Prob)	589.5	530.3	807
Total Proved plus Probable (2P) Reserves	2,358.1	2,133.4	2,521

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 Sproule 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:

The reserves and resources information in this Australian Stock Exchange ("ASX") document relating to oil fields in the Red Earth and Alberta Plains Properties are based on, and fairly represent information prepared by, or

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under the supervision of Mr Doug Ashton from Sproule. Mr Ashton has a Bachelor of Science Degree in Chemical Engineering from University of Calgary. Mr Ashton is a Registered Professional Engineer (P. Eng) in the Province of Alberta and is qualified in accordance with ASX Listing Rule 5.41.

Sproule 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.
4. The reserves are estimated at 31 December 2022 using Deterministic Methods based on Sproule 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 in the Sproule price deck (based on extensive market information and professional experience and expertise) at 31 December 2022. 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 range up to 28 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.
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.

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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.

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.*

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Pricing Strip Tables used in Reserves reporting

Table S-2 Summary of Selected Canadian Price Forecasts⁽¹⁾ Industry Average (Effective January 1, 2023)						
Year	Canadian Light Sweet Crude 40° API (\$Cdn/bbl)	Western Canada Select 20.5 API (\$Cdn/bbl)	Alberta AECO-C Spot (\$Cdn/MMBtu)	Edmonton Pentanes Plus (\$Cdn/bbl)	Edmonton Butane (\$Cdn/bbl)	Edmonton Propane (\$Cdn/bbl)
Historical²						
2018	68.49	52.34	1.53	79.31	33.65	27.00
2019	68.87	58.77	1.80	71.39	23.71	17.16
2020	45.39	35.59	2.24	49.85	21.87	16.31
2021	80.31	68.73	3.64	85.88	51.64	43.39
2022	119.73	101.64	5.43	121.28	61.68	50.11
Forecast						
2023	103.76	76.54	4.23	106.22	53.88	39.80
2024	97.74	77.75	4.40	101.35	52.67	39.14
2025	95.27	77.55	4.21	98.94	51.42	39.74
2026	95.58	80.07	4.27	100.19	51.61	39.86
2027	97.07	81.89	4.34	101.74	52.39	40.47
2028	99.01	84.02	4.43	103.78	53.44	41.28
2029	100.99	85.73	4.51	105.85	54.51	42.11
2030	103.01	87.44	4.60	107.97	55.60	42.95
2031	105.07	89.20	4.69	110.13	56.71	43.81
2032	106.69	91.11	4.79	112.33	57.56	44.47
2033	108.83	92.93	4.88	114.58	58.71	45.35
Escalation rate of 2.0% thereafter						

(1) This summary table identifies benchmark reference pricing schedules that might apply to a reporting issuer. See Appendix B for more details.

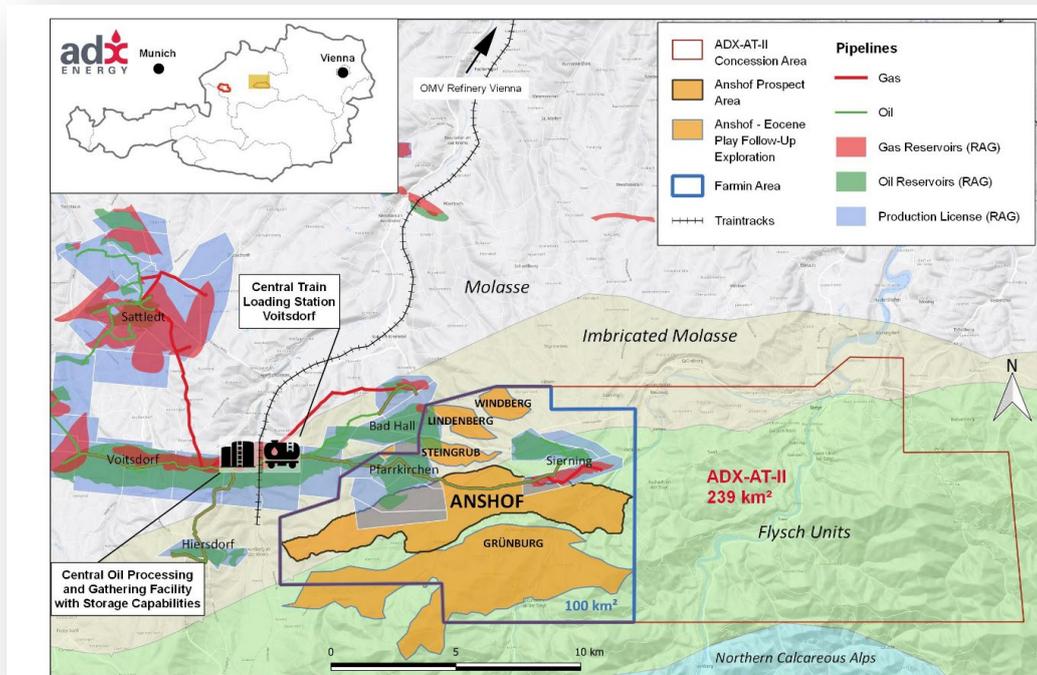
(2) Historical prices are Sproule Only.

Notes:

Product sale prices will reflect these reference prices with further adjustments for quality and transportation to point of sale.

Austria: Anshof Production (20% WI)

In 2022, Xstate participated in the Anshof-3 exploration well in Austria. The Anshof Prospect is situated in the eastern margin of the Molasse Basin and is a thrust anticline defined on 3D seismic. Xstate has earned a 20% working interest in the Anshof Prospect Area.



Anshof Prosect Map

The results of the Anshof-3 exploration well were:

- 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

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).

Anshof 3 Early Production

The well is currently producing 113 barrels per day of oil (BOPD), which is 23 BOPD net to Xstate, as noted in ASX announcement dated 13 March 2023.

The well productivity is at the upper end of the Operator’s (ADX Energy Limited, **ASX:ADX**) expectation, but production is currently limited by on site storage capacity and truck frequency transportation limitations. The production performance from the well will be observed to determine the production capacity and continuity of the Eocene reservoirs.

Interim production of up to 37,000 barrels (gross) is allowed under Austrian legislation prior to finalising a production license for the entire discovery area which is mapped to extend over an area of approximately 24 km².

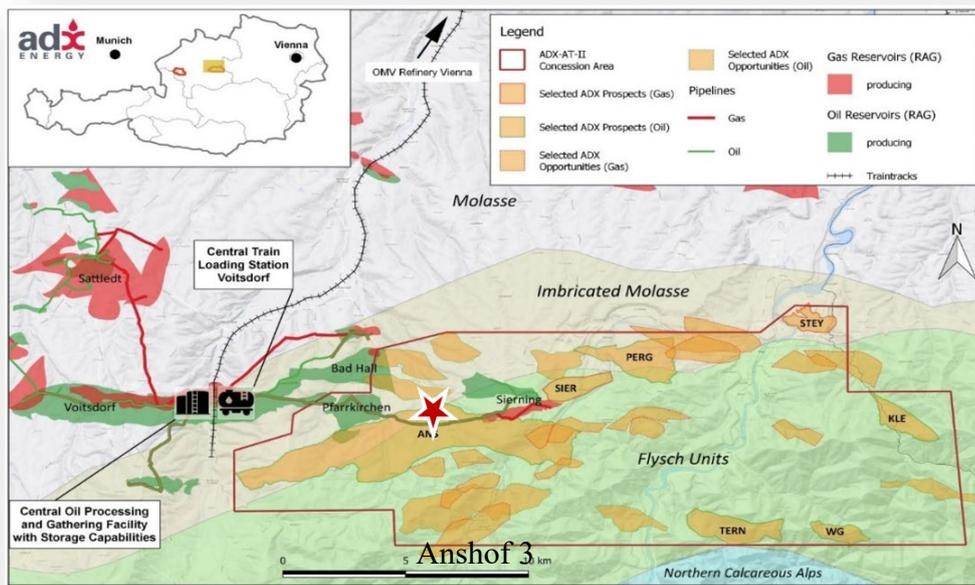
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Photograph of Anshof-3 Production Test



Oil Tanker offloading at Anshof-3 Location



Location Map of Anshof 3

XST share of Oil and Gas production in Austria	December Quarter 2022	September Quarter 2022
Gross Sales (Barrels) before royalty	1,297	Nil

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Anshof Field Independent Reserve Assessment

The Independent Reserve Assessment was undertaken via a Competent Person’s Report (**CPR**) completed by independent consultants RISC. RISC was engaged to provide an independent reserve and resource assessment for the Anshof field located within the ADX-AT-II license for exploration, production and gas storage in Upper Austria (Molasse Basin). The RISC CPR has an effective date of 1 October 2022. XST holds a 20% participating interest in the Anshof field, with ADX holding the remaining 80% and is the Operator.

The Anshof field was discovered by the Anshof-3 well which was drilled, evaluated and cased in January 2022. Commercial crude oil production from the Eocene oil reservoirs at the Anshof-3 well was announced on the 24th of October 2022 after the effective date of the RISC CPR. Eocene oil at Anshof is a high quality (32° API) sweet crude. The scope of the RISC CPR does not include the shallower Miocene sandstone gas intervals encountered in the well.

The RISC CPR was conducted in accordance with SPE-PRMS 2018 with an effective date of 1 October 2022. The 1P, 2P and 3P Reserves have been classified as Undeveloped Reserves (Development Justified) and additional 3C Contingent Resources (Development Pending) have also been identified. A summary of the gross oil and gas reserves and resources for the Anshof field is below in Table 1.

Oil & Gas Reserves	Oil (MMstb)			Gas (MMscf)			Total (MMboe)		
	1P	2P	3P	1P	2P	3P	1P	2P	3P
Anshof gross reserves	0.4	5.0	12.0	96	1,169	2,812	0.5	5.2	12.5
XST net share (20%)	0.1	1.0	2.4	19.2	234	562	0.1	1.0	2.5
Oil & Gas Contingent Resources	Oil (MMstb)			Gas (MMscf)			Total (MMboe)		
	1C	2C	3C	1C	2C	3C	1C	2C	3C
Anshof gross Contingent Resources	0	0	12.9	0	0	3,041	0	0	13.5
XST net share (20%)	0	0	2.6	0	0	608	0	0	2.7

Notes:

1. The notional reference point for reserves is the permit boundary or export line inlet.
2. XST has a 20% participating interest in the Anshof discovery area and 20% entitlement to its gross resources.
3. Probabilistic methods have been used to determine oil in place and recoverable oil. Deterministic methods were used to develop production profiles and well numbers.
4. The 1P case is economically marginal but falls within the typical 10% audit tolerance. Therefore, volumes can be classified as reserves.
5. 1P reserves are based on a 3-well development of the 1P area. 2P reserves are based on a 14-well development of the 2P area. 3P reserves are an upside performance of the 2P wells. An additional 15 wells are estimated to fully develop the high case field area, with this incremental resource classified as contingent resources.
6. Associated gas resources include inerts sold with the gas. There is no fuel and flare.
7. Conversion factors are 7.3 bbl per tonne of oil and 5,800 MMscf per MMboe of gas.

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Table 1: Anshof Reserves and Resources

The key assumptions in the cases using deterministic methods, are summarised in Table 2 below.

Parameter	1P	2P	3P	3P & 3C
Oil contact (mTVDSS)	1,581	1,720	1,720	1,940
Field area (km ²)	0.5	6.4	6.4	25.4
Oil in place (mmstb)	2.4	19.4	19.4	83.2
Production wells (RISC estimate) ²	3	14	14	29
Gross production volumes (mmboe)	0.5	5.2	12.5	26.0
Gross NPV8 (100%) (EUR million)	-3.2	42.3	145.2	283.6
Notes:				
<ol style="list-style-type: none"> 1. XST has a 20% participating interest in the Anshof discovery area and a 20% entitlement to its gross resources. 2. Conversion factors are 7.3 bbl per tonne of oil and 5,800 MMscf per MMboe of gas. 3. Average oil price over the life of the field used in the NPV calculation was USD 71 per bbl (RT 2022). 4. Where necessary, a conversion factor of 1.08 EUR per USD has been used. 5. A discount factor of 8% real (approximately 10% nominal) has been used. Note that project NPV does not necessarily equate to fair market value. 				

Table 2: Anshof Reserves and Resources Key Assumptions

Operator’s Assessment Comparison

The Operator’s estimation of likely well performance including production and recoverable volume per well due to factors such as expected reservoir thickness and quality at future well locations and high angle well design is significantly higher than RISC has estimated. ADX is planning for 5 production wells in the P50 case and 3 and 23 wells in the P90 and P10 cases respectively. Any well performance improvements, particularly in relation to oil recovery per well would reduce the number of production wells required to fully develop the field and improve the field economics.

Anshof Field Description and Resource Estimation Basis

The ADX-AT-II exploration license is situated in the in the Molasse Basin, Austria (Figure 1). The Anshof field is situated within ADX-AT-II, where XST has a 20% interest in the discovery area.

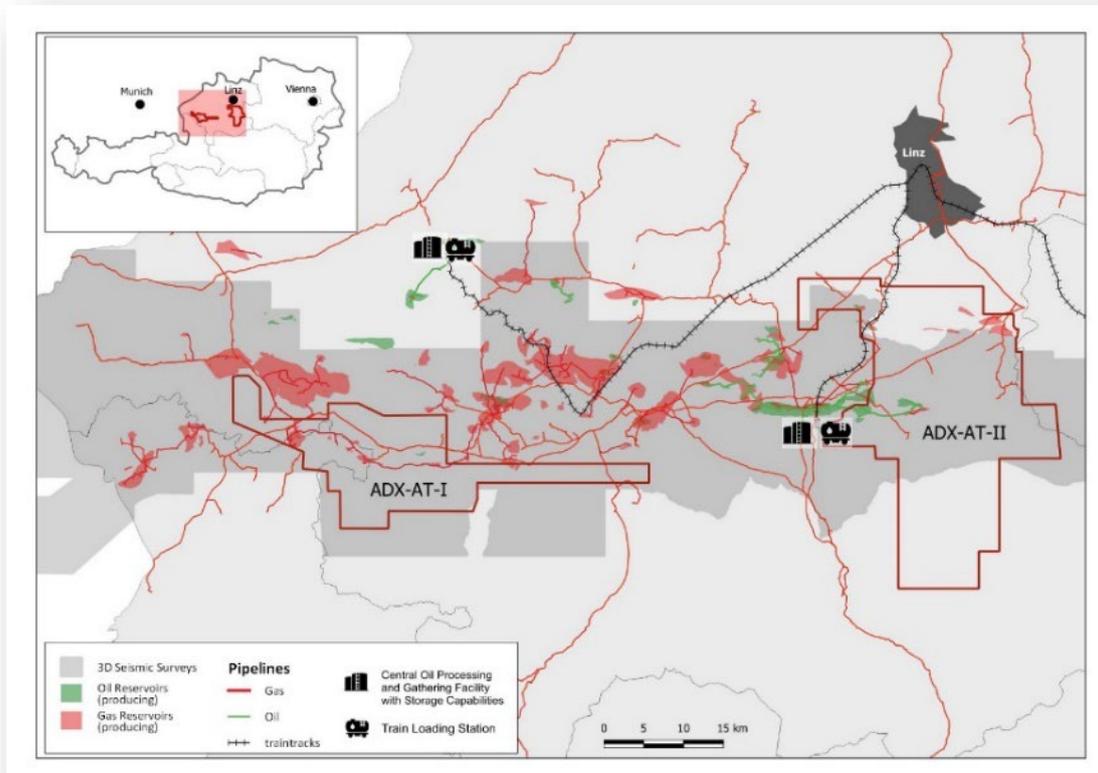


Figure 1: ADX-AT-I and ADX-AT-II exploration licenses

The Anshof oil field was discovered by the Anshof-3 well which was drilled over the December 2021 to January 2022 period.

Mapping of the Anshof structure was completed using modern 3D seismic. Reservoir parameters as well as oil quality was estimated from the Anshof-3 well and surrounding Eocene reservoir analogue wells. The field oil-water contact (OWC) range was estimated in the P90 case at a depth of 1581mSSTVD from the oil-down-to in the Anshof-3 well from which oil has been produced to surface. For the P10 OWC case a depth of 1940mSSTVD was taken from the HGN-001 well where oil shows were intersected. The oil-down-to intersection from the PK-005 well on the western edge of the Anshof structure (a third-party well which produces oil) supports our P50 OWC case depth of 1720mSSTVD and forms the basis for the Operator’s development planning.

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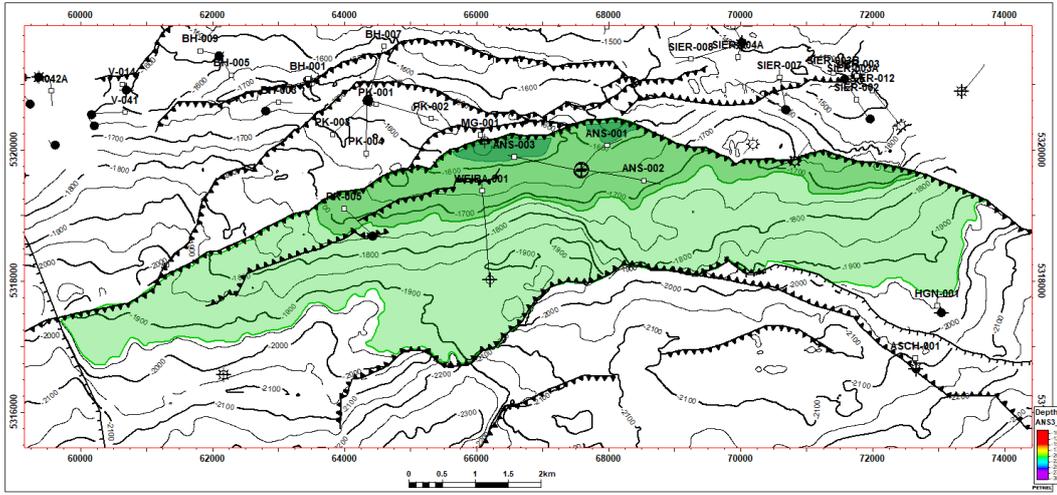


Figure 2: Anshof structure map based on 3D seismic

Production from the Anshof-3 well commenced (after the effective date of the RISC CPR) through an early production system ('EPS') with oil trucked to a third-party gathering and processing facility at Voitsdorf-Zentrale, approximately 12 km by road. The EPS will be utilised until permanent facilities are put in place. The downdip Anshof-2 well is planned to be drilled in late 2023 and on confirmation of the P50 or deeper oil-water-contact permanent production and storage facilities will be constructed and installed at the field with an oil export pipeline in 2024. Production from both Anshof-2 and Anshof-3 wells will continue through an early production system until the pipeline is constructed. Further wells will be drilled as required to fully develop the field in 2024 and beyond.

Recovery factors and production forecasts as determined by RISC are based on the productivity seen in Anshof-3 well test, and a review of nearby Eocene oil producers. Wells will be pumped with sucker-rod pumps or electrical submersible pumps (ESP).

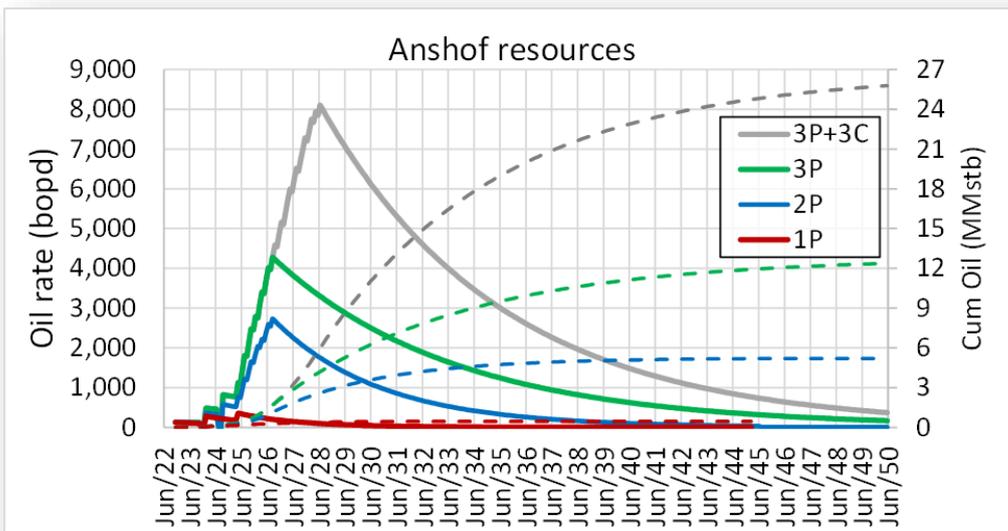


Figure 3: Anshof field production profiles and cumulative production (RISC CPR)

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Economic parameters as determined by RISC are described below in Table 3. Capital expenditures (Capex) consist of wells and facilities and are dependent on the development scenario. Operating expenses (Opex) are broken down into third-party infrastructure and ADX components, which are broadly linked to production and well count.

Table 3: Anshof Reserves and Resources Key Assumptions

Reserve Case	Economic Cut-off	Total Capex (EUR MM)	Total Opex (EUR MM)	NPV ₈ (EUR MM)
1P reserves	2032	16.3	11.7	-3.2
2P reserves	2038	72.6	96.3	42.3
3P reserves	2045	72.6	241.6	145.2
3P + 3C	2045	151.8	507.8	283.6

Notes:

1. Average oil price over the life of the field used in the NPV calculation was USD 71 per bbl (RT 2022).
2. Where necessary, a conversion factor of 1.08 EUR per USD has been used.
3. A discount factor of 8% real (approximately 10% nominal) has been used. Note that project NPV does not necessarily equate to fair market value.

PRMS 2018 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.

3P Denotes high estimate of Reserves. The sum of Proved plus Probable plus Possible Reserves.

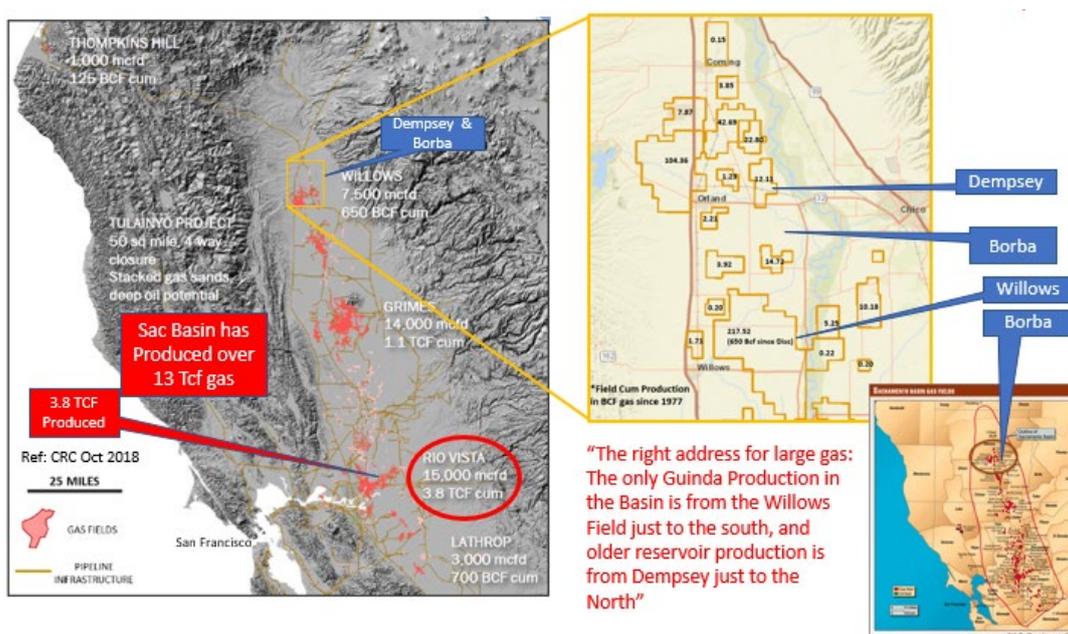
1. **Developed Reserves** are quantities expected to be recovered from existing wells and facilities.
 - a. *Developed Producing Reserves* are expected to be recovered from completion intervals that are open and producing at the time of the estimate.
 - b. *Developed Non-Producing Reserves* include shut-in and behind-pipe reserves with minor costs to access.
2. **Undeveloped Reserves** are quantities expected to be recovered through significant future investments.
 - A. **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.
 - B. **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.

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C. **Possible Reserves** are those additional Reserves that analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) Reserves, which is equivalent to the high-estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate. Possible Reserves that are located outside of the 2P area (not upside quantities to the 2P scenario) may exist only when the commercial and technical maturity criteria have been met (that incorporate the possible development scope). Standalone Possible Reserves must reference a commercial 2P project.

California: Sacramento Basin (Various WIs)

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



Evaluations to monetize the previously reported Borba gas discovery continued with review of alternative developments, these include electricity production for an onsite data centre, hydrolysis of natural gas for Hydrogen generation for the local transport market or other means of transporting the gas molecules to local markets. Permitting of onsite facilities is being initiated.

Gas Production in Sacramento Basin Joint Venture

California Gas Flows (mcf) ¹	2022	2021
Gross Production	143,546	119,894
XST Production after Mineral Royalty	16,318	11,882
Note 1: mcf = Thousand Cubic feet gas		

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Xstate Tenement Listing (as at 31 December 2022)

XSTATE RESOURCES LIMITED – TENEMENT LIST AS AT 31 DECEMBER 2022		
Project name	Category	Working Interest (WI)
Anshof 3 Farmin Area	Exploration	20%
Alvares Appraisal Well	Appraisal	25%
Alvares Project	Exploration & Appraisal	30%
Dempsey 1-15 Well	Exploration & Appraisal	10%
Dempsey AMI	Active leasing 3 large prospects	24%
Rancho Capay Field	Production	10%
Malton field	Production	30%
East Rice East Creek Field	Production	10%
Los Medanos Gas Field	Production	10%
Dutch Slough Field	Production	30%
Red Earth	Production	25%
Alberta Plains	Production	35%
Projects are continuously reviewed for their strategic fit and are expected to be modified over time to reflect industry conditions.		

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).

Financial results and condition

The net loss for the financial year ended 31 December 2022 after income tax was \$3,477,096 (2021: \$4,643,657).

Canadian oil and gas operations netted \$19,411,200 of revenue to the Group (2021: \$8,424,511), with net loss on those operations of \$1,703,964 before tax (2021: profit \$195,393).

The Group has a working capital deficit of \$1,381,613 (2021: surplus \$60,033) and net cash inflows for the year of \$100,941 (2021: outflow \$142,062).

The Company remains acutely aware of the current economic climate and continues to assess costs incurred to ensure appropriate allocation of resources.

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Summary of results

	2022	2021
	\$	\$
Revenue from ordinary activities	19,411,200	8,424,511
Other income	630,810	250,588
Loss before income tax	(3,351,663)	(4,366,994)
Income tax expense	(125,433)	(276,663)
Net Loss for the year	(3,477,096)	(4,643,657)
Other comprehensive income	62,115	150,466
Total comprehensive loss for the year	(3,414,981)	(4,493,191)
Underlying loss per share (cents) ¹	(1.08)	(1.65)
Shares on issue at reporting date ¹	321,519,150	321,519,150
Weighted average number of shares ¹	321,519,150	281,998,245

¹ On 13 March 2023 shareholder approved a 10-for-1 consolidation in the Company's securities, therefore, loss per share has been presented on a post-consolidation basis for both periods. The immaterial variance on 2021 shares on issue at reporting date is due to rounding on fractions of shares.

Planned Activity - 2023

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, as well as any other viable opportunities that may arise globally.

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.

Material Business Risks

The key risk factors affecting the Company are set out below. The occurrence of any one of the risks below could adversely impact the Company's operating or financial performance. It is noted that this is not an exhaustive list of risks that may potentially impact the Company.

Operating Risk

Sustained, unplanned interruption to production operations for either operator that the Company is involved with may impact Xstate's financial performance and its ability to fund its forward programs. The facilities in which Xstate currently has a non-operated working interest are subject to operating hazards associated with major accident events and weather events, which can result in a loss of hydrocarbon containment, diminished production, unbudgeted cost increases, environmental damage and harm to people or reputation. This risk extends to unexpected sub-surface outcomes.

XSTATE RESOURCES LIMITED

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As Xstate is not the operator of the projects it is involved with, the operating risks are extended to include the performance of the operators. These risks could include inadequate resourcing or systems, misalignment of interests, inadequate capture or provision of data and information, poor financial position or unfavourable or inadequate agreement with the operator. Consequences of poor performance by an operator could extend to operational incidents, financial loss, loss of opportunity, non-compliance, legal disputes or less than optimal financial returns from the field.

Xstate seeks to manage and mitigate the risks around performance of the operator by entering into ventures with operators who have a demonstrated history of competencies of operation and financial capacity. Through its due diligence, Xstate seeks to ensure that the operator's reputations are sound and that Xstate's interests are aligned before committing to participation. The Board of Directors is actively engaged with regular communication with each Operator as to the status of operations and planned activities as part of the risk management process.

Commodity Price Risk

The prices of crude oil and natural gas are volatile. As an entity that holds working interests in production operations, changes in the prices of these commodities will affect the Company's financial position, financial results, cash flows, access to capital and the ability for the Company to grow and assess further exploration opportunities. Commodity prices have in recent years been characterized by significant price fluctuations driven by the market's expectations of demand for oil and natural gas, which are influenced by geopolitical events and other global phenomena beyond Xstate's control, including global events such as the COVID-19 pandemic and the Russia-Ukraine war.

The impact of such global events can affect global demand for oil and gas, and the market's expectations on future demand, for long periods of time even after the event has subsided. Although the oil price has appeared to reach a level of stability in global markets toward the conclusion of calendar 2022, there is no certainty as to whether current or new global events could have an impact on the demand or supply of oil moving forward.

As Xstate is not the operator of its working interests, the Company has not entered into any hedging arrangements to mitigate the downside commodity price risk.

Hydrocarbon spills

Oil and gas operations involve the production, storage and transport of the produced oil and gas as well as waste materials. Hydrocarbon spills may lead to damage to the environment, as well as potential safety issues and damage to Xstate and our respective operators' reputation and fines. Hydrocarbon spills are managed by each operator through a system of rigorous internal procedural adherence in combination with technological inputs to rapidly identify and address any occurrences to reduce the environmental impact as best as possible.

Regulatory and Political

Exploration for, and development and exploitation of, oil and gas in Canada and Austria is subject to numerous laws and regulations at both federal and or provincial levels. These include areas of taxation, environmental protection and operational regulatory compliance. Existing laws and regulations, as currently interpreted or reinterpreted in the future, or future laws and regulations could potentially adversely impact the Company. Compliance with such laws and regulations may significantly increase the Company's operating expenses and any failure to comply may result in material penalties and fines to the Company or the Operators. Whilst Canada and Austria are considered to be politically stable, changes in governmental regulations and policies (whether through change in governments or change in policy from existing governments) may adversely affect the financial performance or the current and proposed operations of both the Company and the Operator of the working interests.

XSTATE RESOURCES LIMITED

REVIEW OF OPERATIONS

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The ability to develop and produce oil and gas, as well as industry profitability generally, can be affected by such changes, which are beyond the control of the Company and the Operators of the working interests. As such, future financial performance and future operations may thereby be materially adversely affected.

Reserves and resource estimation

Calculation of recoverable oil and gas reserves and resources contain significant uncertainties which are inherent in the reservoir geology, well data, operating costs and oil prices and requirement management to make a series of assumptions for the purposes of preparing such reserve reports.

Although such assumptions may be reasonable at the time they are made and may be subject to review by independent reserves auditors, future drilling results and costs and oil prices may differ significantly from those assumptions. There is a risk that resource estimations will not convert into reserves or any actual production may significantly vary from estimates.

Xstate manages the risks associated with reserves estimates through by appropriate qualified Board representatives and the engagement of independent auditors on at least an annual basis to certify reserves.

Reliance on Key Personnel

Xstate's success depends in large measure on certain key personnel. The loss of the services of such key personal may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. The contributions of the existing management team to the immediate and near-term operations are likely to be of central importance. There can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the implementation, development and operation of its business strategy.

In addition, it is noted that Xstate is the non-operator of it's key working interests held. Having suitably qualified and reputable operating teams in place, with appropriate relationships and experience for both Canadian and Austrian operations is critical to Xstate's success as it moves into the future. The loss of the services of members of the Canadian or Austrian operating teams could have an adverse impact on the Company's operations, particularly in the short-term until suitable replacements could be recruited. Xstate does not maintain or plan to obtain any insurance against the loss of any key management personnel.

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 2022 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
<p>Andrew Childs Executive Chairman Qualifications: BSc.</p> <p><i>Interest in shares and options</i> Shares: 25,000,000 Options: 35,000,000</p>	<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>
<p>Greg Channon Non-executive Director Qualifications: BSc.</p> <p><i>Interest in shares and options</i> Shares: 5,284,930 Options: 35,000,000</p>	<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&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 Remuneration and Nomination Committee.</p>
<p>Andrew Bald Non-executive Director Qualifications: BEc.</p> <p>Appointed: 6 June 2022</p> <p><i>Interest in shares and options</i> Shares: 31,661,076 Options: Nil</p>	<p>Mr Bald has over 35 years of experience in financial markets and since branching out on his own in 2003, has raised capital for, and listed, a number of junior oil & gas and mineral exploration companies. From 2013 through 2016, he was managing director of Burleson Energy, an oil and gas explorer with production in Texas, USA, and he has also been on the board and acted as company secretary of a number of other ASX listed companies.</p> <p>Mr Bald is the founder and Executive Director of Panthea Capital, a boutique corporate advisory company that specialises in raising capital for ASX listed companies, advising companies in relation to IPO process and providing strategic planning, risk management and financing advice.</p> <p>Mr Bald is Chair of the Remuneration and Nomination Committee and a member of the Audit and Risk Management Committee.</p>

XSTATE RESOURCES LIMITED
DIRECTORS' REPORT
For the year ended 31 December 2022

1. DIRECTORS (continued)

Name and independence status	Experience, qualifications, special responsibilities and other directorships
David McArthur Non-Executive Director Qualifications: BCom. Resigned 6 June 2022	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. Mr McArthur has a Bachelor of Commerce Degree from the University of Western Australia. Mr McArthur has substantial experience in capital raisings, company re-organisations and restructuring, mergers and takeovers, and asset acquisitions by public companies. Mr McArthur is a Non-executive Director of Lodestar Minerals Limited and Delorean Corporation Limited. Mr McArthur was a Director of Sacgasco Limited until 1 June 2021.

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 12 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 2022, 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
Andrew Childs	9	9	2	2
Greg Channon	9	9	2	2
Andrew Bald	5	5	1	1
David McArthur	4	4	1	1

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.

5. OPERATING AND FINANCIAL REVIEW (continued)

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 2022 (2021: 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

Subsequent to the end of the financial year, on 31 January 2023, the Company entered into an agreement with Blue Sky Resources Limited to acquire a 25% working interest in two oil discovery wells that have historically been drilled, completed and have recovered oil. These wells are planned to be imminently equipped and entered into production. In addition to these wells, the acquisition included 10,240 gross acres of unencumbered crown land containing various potential exploration prospects. The acquisition was achieved at a cost of C\$750,000 to Xstate, with a contingent success payment of C\$66,250 (net to Xstate) per well should the two discovery wells achieve production rates greater than 100 bopd (gross) for a period of 45 consecutive days when entered into production.

On 13 March 2023, Shareholders approved a 10-for-1 consolidation of the Company's issued securities. On 17 March 2023, the Company's ordinary shares were consolidated from 3,215,181,651 to 321,519,150 and the outstanding options on issue were consolidated from 115,500,000 to 11,550,000. The exercise price of the outstanding options transitioned from \$0.005 to \$0.05, however no change was made to the expiry date.

Other than the matters identified above, 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 and production 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:

Expiry date	Exercise price cents	Number of shares
31-Jan-24	5 ¹	11,550,000 ¹

¹ It is noted that the above share options were subject to the capital consolidation that took place in March 2023. At their issuance in May 2022, total options amounted to 115,500,000, at an exercise price of \$0.005 per option.

All unissued shares are ordinary shares of the Company.

10. SHARE OPTIONS (continued)

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, no options were converted into fully paid ordinary shares. Since the end of the financial year, no options have been converted into fully paid ordinary shares.

Options expired

During the reporting period, 7,500,000 options with an exercise price of 5 cents expired unexercised on 31 December 2022 (2021: no options expired). It is noted this disclosure is on a post-consolidation of capital basis.

11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the Company paid an insurance premium of \$43,840 (2021: \$40,545) 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.

12. NON-AUDIT SERVICES (continued)

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:

	2022 \$	2021 \$
Taxation services		
<i>BDO Corporate Tax (WA) Pty Ltd</i>		
Tax compliance and advisory services	18,528	20,623
Total remuneration for non-audit services	18,528	20,623

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 2022 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:

- (a) Remuneration governance
- (b) Remuneration consultants
- (c) Executive remuneration strategy and framework
- (d) Board and management changes
- (e) Service contracts
- (f) Non-executive director remuneration
- (g) Key management personnel remuneration
- (h) Analysis of bonuses included in remuneration
- (i) Other KMP disclosures
- (j) Voting and comments made at the Company's 2022 Annual General Meeting

(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.

14. REMUNERATION REPORT – AUDITED (continued)

(c) Executive remuneration strategy and framework (continued)

As the Group's principal activities during the year were assessment of new ventures, exploration / evaluation and development operations, 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.

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.

XSTATE RESOURCES LIMITED
DIRECTORS' REPORT
For the year ended 31 December 2022

14. REMUNERATION REPORT – AUDITED (continued)

(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:

Shareholder returns	2022	2021	2020	2019	2018
Total Comprehensive Loss for year (\$)	(3,414,981)	(4,493,191)	(646,076)	(715,275)	(1,284,540)
Basic EPS (cents)	(1.08)	(1.65)	(0.04)	(0.06)	(0.16)
Share price at year end (cents) ¹	2	4	5	3	2
Market capitalisation (\$)	6,430,363	12,860,727	9,056,204	4,276,473	2,280,981
Net tangible assets / (liabilities) (\$)	353,332	3,802,235	704,300	(105,189)	55,925
NTA Backing (cents)	0.11	1.18	0.39	(0.07)	0.05

¹ Note that for the purposes of consistency of comparative information, the share prices identified above for 2018 through 2022 have been adjusted to reflect accurately the 10-for-1 consolidation of the Company's securities that took place in March 2022.

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 Bald was appointed Non-executive Director and Mr David McArthur resigned from his position as Non-executive Director, remaining with the Company in his capacity as Company Secretary.

(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. During the year, all Director's remuneration was increased to \$60,000 per annum, commensurate with increase activity by the Group.

(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, for the year ended 31 December 2022 was \$60,000 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.

XSTATE RESOURCES LIMITED
DIRECTORS' REPORT
For the year ended 31 December 2022

14. REMUNERATION REPORT – AUDITED (continued)

(f) (i) Key management personnel remuneration 2022

Name		Short-term employee benefits			Post- employment benefits	Share based payments		Total
		Salary and fees (A) \$	Non-monetary benefits (B) \$	Total \$	Superannuation \$	Shares \$	Options (C) \$	
Executive Directors								
Andrew Childs ¹	2022	50,786	14,613	65,399	5,214	-	81,199	151,812
	2021	15,368	6,332	21,700	1,498	-	-	23,198
David McArthur ²	2021	33,380	7,183	40,563	1,700	-	220,664	262,927
Non-Executive Directors								
Andrew Childs ¹	2021	17,434	7,183	24,617	1,700	-	220,664	246,981
Greg Channon	2022	56,000	14,613	70,613	-	-	81,199	151,812
	2021	36,000	13,515	49,515	-	-	126,095	175,610
David McArthur ²	2022	32,430	6,286	38,716	1,993	-	81,199	121,908
	2021	29,422	6,332	35,754	1,498	-	-	37,252
Andrew Bald	2022	35,000	8,328	43,328	-	-	-	43,328
Total key management personnel remuneration	2022	174,216	43,840	218,056	7,207	-	243,597	468,860
	2021	131,604	40,545	172,149	6,396	-	567,423	745,968

¹ Andrew Childs was appointed as Executive Chairman on 14 July 2021. Previous to this, Mr Childs held the position of Non-executive Director.

² David McArthur received \$12,500 in remuneration for Company Secretarial services provided to the Company through to his resignation as a Director on 6 June 2022 (2021: \$30,000). Mr McArthur was Interim Managing Director until 14 July 2021, at which point he became a 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 22 of the notes to the consolidated financial statements was:

- Andrew Childs \$54,000 (2021: \$20,000)
- Greg Channon \$15,000 (2021: \$8,750)
- David McArthur \$47,000 (2021: \$96,000)

(B) Comprises Directors and Officers insurance premiums.

(C) The fair value of options granted was determined using the Black-Scholes method at grant date. 105,000,000 options were issued to Directors during 2022, as approved by shareholders at the AGM held in May 2022 (2021: 90,000,000 options).

(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 2022 (2021: 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, 105,000,000 options were issued to Directors of the Company (2021: 90,000,000). Details of this option issuance are disclosed in note 20 to the financial statements. These options have been consolidated post year-end on a consistent 10-for-1 basis applied to ordinary capital as identified in the ASX announcement dated 20 March 2023.

Exercise of options granted as compensation

During the reporting period, no shares were issued on the exercise of options previously granted as compensation. (2021: 15,000,000 on exercise price of 0.5 cents per share).

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 identified in the table on the following page:

XSTATE RESOURCES LIMITED
DIRECTORS' REPORT
For the year ended 31 December 2022

14. REMUNERATION REPORT – AUDITED (continued)

(h) Other KMP disclosures (continued)

	Held at 1 January 2022	Granted	Expired / Lapsed	Exercised / Sold	Held at 31 December 2022 ²	Vested and exercisable 31 December 2022
Andrew Childs	25,000,000	35,000,000	(25,000,000)	-	35,000,000	35,000,000
Greg Channon	20,000,000	35,000,000	(20,000,000)	-	35,000,000	35,000,000
Andrew Bald	-	-	-	-	-	-
David McArthur	22,500,000	35,000,000	(22,500,000)	-	35,000,000 ¹	N/A

¹ Balance held on resignation on 6 June 2022

² All options have been consolidated post year-end on a 10-for-1 basis as identified in the ASX announcement date 20 March 2023.

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 2022	Purchases / Conversions	Sales	Held at 31 December 2022 ¹
Andrew Childs	16,000,000	9,000,000	-	25,000,000
Greg Channon	5,284,930	-	-	5,284,930
Andrew Bald	21,661,076 ²	10,000,000	-	31,661,076
David McArthur	28,993,699	-	-	28,993,699³

¹ All shares have been consolidated post year-end on a 10-for-1 basis as identified in the ASX announcement date 20 March 2023

² Balance held on appointment on 6 June 2022

³ Balance held on resignation on 6 June 2022

(i) Voting and comments at the Company's 2022 Annual General Meeting

The Company received 97.95% of "for" votes on its remuneration report for the 31 December 2021 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 2022.

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

A handwritten signature in black ink, appearing to read 'A Childs', with a long horizontal flourish extending to the right.

ANDREW CHILDS

Executive Chairman

Signed at Perth, Western Australia this 31st day of March 2023.

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 2022, 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 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	2022 \$	2021 \$
Assets			
Cash and cash equivalents	14	814,463	724,391
Trade and other receivables	15	4,548	885,988
Current tax asset	12	134,231	-
Prepayments		206,732	43,632
Inventories		155,233	50,747
Total current assets		1,315,207	1,704,758
Oil and gas assets	16	30,499,918	38,685,399
Total non-current assets		30,499,918	38,685,399
Total assets		31,815,125	40,390,157
Liabilities			
Trade and other payables	17	(1,433,190)	(159,866)
Current tax liability	12	-	(278,155)
Borrowings		-	(4,918)
Employee benefits		(1,425)	(1,637)
Site restoration provision	18	(1,262,205)	(1,200,149)
Total current liabilities		(2,696,820)	(1,644,725)
Site restoration provision	18	(28,419,462)	(34,899,566)
Total non-current liabilities		(28,419,462)	(34,899,566)
Total liabilities		(31,116,282)	(36,544,291)
Net assets		698,843	3,845,866
Equity			
Share capital	19	58,083,830	58,083,830
Reserves		515,500	658,280
Accumulated losses		(57,900,487)	(54,896,244)
Total equity attributable to equity holders of the Company		698,843	3,845,866

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 2022

		2022	2021
		\$	\$
Revenue from operating activities			
Production income	10	19,411,200	8,424,511
Other income	10	630,810	250,588
Interest income		5,456	-
Expenses			
Cost of sales		(17,192,523)	(7,003,229)
Other operating expenses		(192,899)	(285,790)
Exploration expenditure		(900,681)	(3,106,888)
Personnel expenses	11	(468,860)	(781,968)
Administrative expenses		(86,016)	(115,471)
Professional fees		(397,481)	(202,375)
Depreciation and amortisation	16	(3,388,502)	(1,104,084)
Finance expenses		(736,849)	(477,159)
Other expenses		(30,013)	-
Foreign exchange gain / (loss)		(5,305)	34,871
Loss before income tax expense		(3,351,663)	(4,366,994)
Income tax expense	12	(125,433)	(276,663)
Loss for the year		(3,477,096)	(4,643,657)
Other Comprehensive Income			
Exchange differences on translation of foreign operations		62,115	150,466
Total Comprehensive Loss for the year		(3,414,981)	(4,493,191)
Loss per share (cents per share)			
Basic and diluted (cents per share)	13	(1.08)	(1.65)

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 2022

	Share capital	Foreign currency translation reserve	Options reserve	Accumulated losses	Total
	\$	\$	\$	\$	\$
Balance at 1 January 2022	58,083,830	185,427	472,853	(54,896,244)	3,845,866
Total comprehensive income for the year					
Loss for the year	-	-	-	(3,477,096)	(3,477,096)
Other comprehensive income for the year					
Foreign exchange translation difference on foreign operations	-	62,115	-	-	62,115
Total comprehensive loss for the year	-	62,115	-	(3,477,096)	(3,414,981)
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Share based payment transactions	-	-	267,958	-	267,958
Expiration of options	-	-	(472,853)	472,853	-
Total contributions by owners	-	-	(204,895)	472,853	267,958
Balance at 31 December 2022	58,083,830	247,542	267,958	(57,900,487)	698,843

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 2021	50,427,398	34,961	-	589,099	(50,347,158)	704,300
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(4,643,657)	(4,643,657)
Other comprehensive income for the year						
Foreign exchange translation difference on foreign operations	-	150,466	-	-	-	150,466
Total comprehensive loss for the year	-	150,466	-	-	(4,643,657)	(4,493,191)
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
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)
Total contributions by owners	7,656,432	-	472,853	(589,099)	94,571	7,634,757
Balance at 31 December 2021	58,083,830	185,427	472,853	-	(54,896,244)	3,845,866

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 2022

	Note	2022 \$	2021 \$
Cash flows from operating activities			
Receipts from customers		2,406,955	1,158,810
Payments to suppliers and employees		(722,597)	(1,037,562)
Payments for exploration and evaluation		(1,042,102)	(3,161,566)
Interest paid		(31)	(3,455)
Interest received		5,456	-
Income taxes paid		(546,740)	(4,492)
Net cash from / (used in) operating activities	14	100,941	(3,048,265)
Cash flows from investing activities			
Payments for production interest acquisitions		-	(1,738,699)
Net cash used in investing activities		-	(1,738,699)
Cash flows from financing activities			
Proceeds from issue of shares and options	20	-	5,075,001
Payment of capital raising costs		-	(321,566)
Repayment of borrowings		(4,918)	(108,533)
Net cash from financing activities		(4,918)	4,644,902
Net increase / (decrease) in cash and cash equivalents		96,023	(142,062)
Cash and cash equivalents at 1 January		724,391	814,876
Effect of exchange rate fluctuations on cash held		(5,951)	51,577
Cash and cash equivalents at 31 December	14	814,463	724,391

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 2022

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 and evaluation interests in the United States of America and Austria. The Group also holds working interests 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 2022 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 2023. 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 2022; 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 \$698,843 (2021: \$3,845,866), a working capital deficit of \$1,381,613 (2021 surplus: \$60,033) and receivables of \$4,548 (2021: \$885,988). During the year ended 31 December 2022, the Group recorded overall cash inflows from Operating Activities of \$100,941 (2021 outflow: \$3,048,265).

During the financial year, the Group has continued to receive cash inflows from oil and gas production operations in Canada. At year-end the Company is in a payable position, predominantly a result of development costs incurred by the operator in drilling and completion works at the Joint Venture's Alberta Plains assets.

3 GOING CONCERN (continued)

Despite ongoing operations in Canada and the commencement of production testing operations in Austria, the conditions present 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 2022 to be able to meet planned and committed operating expenditures and discharge its current liabilities. The Directors are confident of sourcing these funds and this is predicated on several factors, namely:

- Positive cash flows from oil and gas production operations in Canada;
- Continued support of creditors given negative working capital position;
- The ability to raise capital from existing shareholders or a placement to sophisticated investors, should the above not prove sufficient for expenditures incurred; and/or
- Via successful sale of rights to exploration or production assets held by the Group.

The Directors are confident that a combination of these strategies will sufficiently fund operations for the year.

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.

5 IMPAIRMENT (continued)

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:

Oil and Gas assets (note 16)

The Group assesses each asset or CGU in each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal and value-in-use. The assessments require the use of estimates and assumptions, such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

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.

6 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Critical accounting estimates and assumptions (continued)

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.

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 2022.

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 2022. 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 and evaluation 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 no change in the basis of segmentation since the 31 December 2021 accounts

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 OPERATING SEGMENTS (continued)

Segment information provided to the CODM

31 December 2022	Oil & gas exploration USA	Oil & gas exploration AUT	Oil & gas production CAN	Corporate	Eliminations	Total
Key segment P&L information						
Revenue from external customers	-	-	19,411,200	-	-	19,411,200
Other income from external customers	123,667	163,001	344,142	-	-	630,810
Loss before tax	(173,667)	(446,813)	(1,703,964)	(1,027,220)	-	(3,351,664)
Exploration expenditure	290,866	609,815	-	-	-	900,681
Depreciation and amortisation	-	-	3,388,502	-	-	3,388,502
Segment balance sheet info						
Current assets	1,191	206,512	1,049,474	150,309	(92,279)	1,315,207
Non-current assets	-	-	30,499,918	-	-	30,499,918
Total Assets	1,191	206,512	31,549,392	150,309	(92,279)	31,815,125
Current liabilities	-	-	(2,702,671)	(86,428)	92,279	(2,696,820)
Non-current liabilities	(59,768)	-	(28,359,694)	-	-	(28,419,462)
Total Liabilities	(59,768)	-	(31,062,365)	(86,428)	92,279	(31,116,282)

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 OPERATING SEGMENTS (continued)

31 December 2021	Oil & gas exploration USA	Oil & gas exploration AUT	Oil & gas production CAN	Corporate	Eliminations	Total
Key segment P&L information						
Revenue from external customers	-	-	8,424,511	-	-	8,424,511
Other income from external customers	27,402	-	223,186	-	-	250,588
Profit / (loss) before tax	(2,136,191)	(993,053)	195,393	(1,066,945)	(366,198)	(4,366,994)
Exploration expenditure	2,113,835	993,053	-	-	-	3,106,888
Depreciation and amortisation	-	-	1,104,083	-	-	1,104,083
Segment balance sheet info						
Current assets	1,464	16,432	1,421,436	265,426	-	1,704,758
Non-current assets	-	-	38,685,399	-	-	38,685,399
Total Assets	1,464	16,432	40,106,835	265,426	-	40,390,157
Current liabilities	(68,115)	-	(1,478,304)	(98,306)	-	(1,644,725)
Non-current liabilities	(56,107)	-	(34,843,459)	-	-	(34,899,566)
Total Liabilities	(124,222)	-	(36,321,763)	(98,306)	-	(36,544,291)

10 PRODUCTION INCOME AND OTHER 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 2022 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 2022.

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.

Revenue from continuing operations	2022	2021
	\$	\$
Crude oil sales		
Goods transferred at a point in time	18,936,658	8,139,425
Gas sales		
Goods transferred at a point in time	474,542	285,086
	19,411,200	8,424,511
Other income	2022	2021
	\$	\$
Other operating income - California ¹	630,810	250,588
	630,810	250,588

¹ The Company receives other operating income from three main sources:

- via minor gas sales occurring as a by-product of exploration leases acquired in the Capay and Los Medanos gas fields in the Sacramento Basin, onshore California.
- via oil sales occurring at the Anshof-3 production facility during the extended well test being performed by the operator, ADX Energy Limited. As this process is still considered an evaluation of the prospect, this is treated as other operating income.
- via alternate minor processing operations and road use income by Blue Sky Resources Limited, the Company's joint arrangement partner, the operator of the Red Earth and Alberta Plains oil and gas assets in Alberta, Canada.

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.

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

	Note	2022	2021
		\$	\$
Directors' remuneration	22	468,860	745,968
Recognition of FV adjustment on share-based payment ¹		-	36,000
		468,860	781,968

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.

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 probably 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.

XSTATE RESOURCES LIMITED
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12 INCOME TAX EXPENSE (continued)

(a) Amounts recognised in profit or loss

	2022	2021
	\$	\$
Current tax expense		
Income tax expense recognised on profitable operations	121,721	272,170
Tax losses not brought to account	(101,944)	(106,305)
Other income taxes paid	3,712	4,493
Deferred tax benefit		
Origination and reversal of temporary differences	101,944	106,305
Total income tax expense	125,433	276,663

(b) Reconciliation of effective tax rate

	2022	2021
	\$	\$
Loss for the period	(3,477,096)	(4,643,656)
Total income tax expense	125,433	276,663
Loss excluding income tax	(3,351,663)	(4,366,993)
Income tax using the Group's domestic tax rate of 25% (2021: 25%)	(837,916)	(1,091,748)
Tax rate differential on non-Australian income	33,607	(3,842)
Non-deductible expenses	345,690	1,034,434
Other international income taxes paid	3,712	4,493
Adjustment for prior periods	(62,151)	21,342
Timing differences not brought to account	(6,283)	235,813
Tax losses not brought to account	101,944	76,171
	125,433	276,663
Tax Losses		
Unused tax losses for which no deferred tax asset has been recognised	6,627,167	6,335,293
Potential tax benefit at 25% (2021: 25%)	1,656,792	1,617,042

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits of up to \$1,656,792 (2021: \$1,617,042) 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.

12 INCOME TAX EXPENSE (continued)

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 legislation 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.

(c) Unrecognised deferred tax assets and liabilities

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

	2022	2021
	\$	\$
Deferred tax assets		
Employee benefits	356	409
Carry forward tax losses	1,656,792	1,617,042
Site restoration provisions	8,280,859	8,290,029
Other	1,048	1,048
	9,939,055	9,908,528
Deferred tax liabilities		
Oil and gas properties	(8,057,429)	(8,164,342)
International intercompany loan	(12,447)	-
DTAs not brought to account	1,869,179	1,744,186

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 2022 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.

On 13 March 2023, Shareholders approved a 10-for-1 consolidation of capital in securities of the Company. Accordingly, shares on issue were consolidated on this basis. The below results are reported on a post-consolidation basis to reflect accurately the loss per share attributable to shareholders. Comparative results have accordingly been adjusted.

13 LOSS PER SHARE (continued)

Loss per share attributable to ordinary shareholders

	2022	2021
Net loss attributable to ordinary shareholders - \$	(3,447,096)	(4,643,656)
Issued ordinary shares at 1 January	321,519,150	181,124,090
Effect of shares issued	-	100,753,899
Weighted average number of ordinary shares at December	321,519,150	281,877,989
Basic loss per share (cents)	(1.08)	(1.65)
Diluted loss per share (cents) ¹	(1.08)	(1.65)

¹ At 31 December 2022, 11,550,000 options (2021: 7,500,000 options) were excluded from diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive. These numbers are on a post-consolidation basis.

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

	2022	2021
	\$	\$
Cash and cash equivalents	814,463	724,391

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

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation of cash flows from operating activities

	2022	2021
	\$	\$
Cash flows from operating activities		
Loss for the year	(3,477,096)	(4,371,466)
Adjustments for:		
Depreciation	3,388,502	1,104,084
Insurance premium funding	-	47,829
Unwinding of discount on restoration liabilities	736,818	470,123
Share-based payments	267,958	603,423
Net loss / (profit) on foreign exchange translation	(528)	(21,157)
Change in other receivables	2,186,228	(860,880)
Change in prepayments	(163,096)	161,079
Change in inventories	(106,884)	(49,655)
Change in other operating assets	(1,516,294)	-
Change in trade and other payables	15,594	13,335
Change in interest bearing liabilities	-	3,890
Change in tax liabilities	(421,306)	-
Change in employee benefits	(211)	(104,300)
Change in provisions	(808,744)	(44,570)
Net Cash used in operating activities	100,941	(3,048,265)

(c) Non-cash investing and financing activities

	2022	2021
	\$	\$
Issue of shares as payment for production interest acquisition	-	2,252,971
Issue of shares as payment for Director liabilities	-	56,000

Non-cash investing and financing activities are disclosed notes 16, 19 and 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 2022, 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.

	2022	2021
	\$	\$
Current		
Net production operations receivable (Canada)	-	879,512
Authorised government agencies	4,548	6,476
	4,548	885,988

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 21.

16 OIL AND GAS ASSETS

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.

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)

Accounting Policy (continued)

Depreciation and Amortisation

Depletion charges are calculated to amortise the capitalised value of carried forward production assets over the life of the estimated Proved 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.

	Sub-surface assets \$	Surface assets \$	Total \$
Balance as at 1 January 2021	-	-	-
Acquisitions and additions	3,846,267	198,120	4,044,387
Capitalisation of asset retirement obligation	22,266,487	7,758,698	30,025,185
Depletion of assets	(846,051)	(258,033)	(1,104,084)
Changes in asset retirement obligation estimates	3,470,474	1,140,708	4,611,182
Foreign exchange movements	854,408	254,321	1,108,729
Balance as at 31 December 2021	29,591,585	9,093,814	38,685,399
Additions	-	1,516,294	1,516,294
Depletion of assets	(2,600,624)	(787,878)	(3,388,502)
Changes in asset retirement obligation estimates	(4,829,997)	(1,622,828)	(6,452,825)
Foreign exchange movements	130,022	9,530	139,552
Balance as at 31 December 2022	22,290,986	8,208,932	30,499,918

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.

	2022	2021
	\$	\$
Current		
Trade payables	(48,218)	(119,866)
Net production operations payable (Canada)	(1,348,187)	-
Other payables and accrued expenses	(36,785)	(40,000)
	(1,433,190)	(159,866)

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 21.

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.

18 SITE RESTORATION PROVISIONS (continued)

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 3.45 percent (2021: 1.63 percent), a long-term inflation rate assumption of 2 percent (2021: 3.4 percent) and the assumed timing of cash outflows through to 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.

	2022	2021
	\$	\$
Current		
Canadian asset retirement obligation	(1,262,205)	(1,200,149)
Non-current		
Canadian asset retirement obligation	(28,359,694)	(34,843,459)
Californian site restoration provision	(59,768)	(56,107)
Total Non-current	(28,419,462)	(34,899,566)
Total Provision	(29,681,666)	(36,099,715)
	2022	2021
	\$	\$
Movement in carrying amounts		
Opening balance	(36,099,715)	(52,858)
Additional provisions recognised - Canada	-	(30,025,185)
Rehabilitation works performed	808,744	44,570
Unwinding of discount	(736,818)	(470,123)
Re-estimation of provision – Canada ¹	160,938	(4,611,182)
Effects of change in discount rate	6,291,886	-
Effects of foreign exchange	(106,703)	(984,937)
Closing balance	(29,681,666)	(36,099,715)

¹ The re-estimation of the Canadian restoration and rehabilitation provision has arisen from a combination of; 1. Inflation applied to base costs estimates of 6.8% to effect the current-term effects of inflation on costings that long-term estimates are based upon (2021:nil); and 2. changes in the risk free rate and long-term inflation rates used to NPV the estimated provision for the life of the oil fields.

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 \$	
	2022	2021	2022	2021
Movements in ordinary shares on issue:				
On issue at 1 January	321,519,150	181,124,090	58,083,830	50,427,398
Working capital placement – 0.8 cents	-	50,000,013	-	4,000,001
Working capital placement – 0.4 cents	-	25,000,000	-	1,000,000
Issues of shares for acquisition of oil and gas working interests	-	33,392,747	-	2,252,971
Placement as debt settlement with Directors – 0.25 cents ¹	-	800,000	-	56,000
Conversion of options	-	1,500,000	-	75,000
Conversion of convertible notes	-	29,701,316	-	594,026
Capital raising costs	-	-	-	(321,566)
Adjustment to effect share consolidation ²	-	984	-	-
On issue at 31 December	321,519,150	321,519,150	58,083,830	58,083,830

¹ Issue of shares fair valued accounted at 7 cents per accounting standards requirements. Issue price identified in notice of GM was 2.5 cents per share (pricing information adjusted to reflect 10-for-1 consolidation in March 2023).

² As a result of the 10-for-1 capital consolidation, a number of shareholders had fractional holdings rounded up. This number of shares disclosed effects the fractional rounding encountered.

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.

Since the end of the reporting period, a 10-for-1 consolidation of capital has occurred, as approved by shareholders on 13 March 2023. This disclosure has been prepared to reflect the consolidation of capital for both the current period and the prior period.

All issued shares are fully paid.

19 CAPITAL AND RESERVES (continued)

Options

	Options on issue			
	Number of options		Amount in \$	
	2022	2021	2022	2021
Movements in options on issue:				
On issue at 1 January	7,500,000	-	472,852	-
Issue of options to Directors	10,500,000	9,000,000	243,597	567,423
Issue of options to Consultants	1,050,000	-	24,361	-
Exercise of options	-	(1,500,000)	-	(94,571)
Expiry of unlisted options	(7,500,000)	-	(472,852)	-
On issue at 31 December	11,550,000	7,500,000	267,958	472,852

During the reporting period, no shares were issued as a result of the exercise of options. (2021: 1,500,000)
 Since the end of the reporting period, no shares have been issued as a result of the exercise of options.

During the reporting period, 7,500,000 options expired (2021: nil options expired).

Since the end of the reporting period, a 10-for-1 consolidation of capital has occurred, as approved by shareholders on 13 March 2023. This disclosure has been prepared to reflect the consolidation of capital for both the current period and the prior period. Accordingly, at the date of this report, there are 11,550,000 options outstanding.

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.

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 and Consultants as approved by shareholders at the 2022 Annual 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.

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

	2022	2021
	\$	\$
Expensed in personnel expenses (Director remuneration)		
Options issued to Directors	243,597	567,423
Options issued to consultants	24,361	-
Shares issued to Directors ¹	-	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 2022, 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
31-May-22	31-May-22	31-Jan-24	5	-	11,550,000	-	11,550,000	11,550,000
Total				-	11,550,000	-	11,550,000	11,550,000
Weighted Average Exercise Price (cents)					5	-	5	5

Note: This disclosure has been prepared to reflect the consolidation of capital

20 SHARE-BASED PAYMENTS (continued)

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 and take into account the effect of the 10-for-1 capital consolidation occurring in March 2023.

	Options
Number of options	11,550,000
Exercise price (cents)	5
Grant date	31-May-22
Expiry date	31-Jan-24
Life of the options (years)	1.67
Volatility	206.88%
Risk free rate	2.60%
Fair value at grant date (cents)	2.3
Share price at grant date (cents)	3

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

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

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

	Amortised cost	
	2022	2021
	\$	\$
Cash and cash equivalents	814,463	724,390
Trade and other receivables	4,548	885,988
Total Financial Assets	819,011	1,610,378

Financial Liabilities

	Amortised cost	
	2022	2021
	\$	\$
Trade and other payables	(1,433,190)	(159,865)
Borrowings	-	(4,918)
Total Financial Assets	(1,433,190)	(164,783)

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.

21 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

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 \$814,463 at 31 December 2022 (2021: \$724,390). The cash and cash equivalents are held with authorised banking institutions and only with counterparties that have an acceptable credit rating.

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 information on the following page represents the contractual maturities of financial liabilities excluding the impact of netting arrangements:

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)

	Carrying amount \$	Contractual cash flows \$	12 months or less \$
31 December 2022			
Non-derivative financial liabilities			
Trade and other payables	(1,433,190)	(1,433,190)	(1,433,190)
	(1,433,190)	(1,433,190)	(1,433,190)
31 December 2021			
Non-derivative financial liabilities			
Trade and other payables	(159,865)	(159,865)	(159,865)
Borrowings	(4,918)	(4,918)	(4,918)
	(164,783)	(164,783)	(164,783)

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):

	Assets		Liabilities	
	2022 \$	2021 \$	2022 \$	2021 \$
US dollar	1,641	137,041	-	(68,114)
Canadian dollar	794,282	1,370,688	(1,000,202)	(278,155)

21 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

Foreign currency sensitivity analysis

The Group is predominantly exposed to US dollar (**USD**), Canadian dollar (**CAD**) and Euro (**EUR**) foreign exchange risk. A sensitivity analysis has been performed, assessing outstanding foreign currency denominated monetary items and adjusting their translation at the year-end for a 2% (31 December 2021: 2%) change in foreign currency rates. This analysis has identified that the impact on profit and loss in the current and prior financial period would not be a material impact to the Company and the Group.

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.

	Impact on profit or loss	
	2022	2021
	\$	\$
Increase in oil price by 20% (31 December 2021: 20%)	2,407,201	1,692,804
Decrease in oil price by 20% (31 December 2021: 20%)	(2,407,201)	(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.

21 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

Market risk (continued)

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:

	Carrying amount	
	2022	2021
	\$	\$
Variable rate instruments		
Cash and cash equivalents	814,463	724,390
	814,463	724,390

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 has been analysed for potential impact upon the Company and the Group. This analysis assumes that all other variables remain constant. The analysis identified that the impact of a change in interest rates on variable rate instruments would not have a material impact on the Company or the Group.

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:

	2022	2021
Note	\$	\$
Short term employee benefits	218,056	172,149
Post-employment benefits	7,207	6,396
Share-based payments	243,597	567,423
11	468,860	745,968

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:

<i>KMP</i>	<i>Transaction</i>	<i>Note</i>	Transactions value year ended 31 December		Balance outstanding as at 31 December	
			2022	2021	2022	2020
			\$	\$	\$	\$
David McArthur	Management fees	1	47,000	96,000	-	8,800
Andrew Childs	Consultancy fees	2	54,000	20,000	-	-
Greg Channon	Consultancy fees	3	15,000	8,750	-	-
					-	8,800

¹ 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. As Mr McArthur resigned as a Director of the Board on 6 June 2022, the reporting of related party transactions runs to this date.

² The Group paid \$54,000 for consultancy services to Resource Recruitment Pty Ltd, a company associated with Mr Childs, in relation to technical oil and gas analysis services provided to the Group, services considered outside the scope of Mr Childs' Director commitments. Amounts were billed based on normal market rates for such services and were due and payable under normal terms.

³ The Group paid \$15,000 for 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.

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	
				2022 %	2021 %
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 Energy Ltd ¹	Oil and gas production	Alberta, Canada	31 December	100	100
Xstate Texas LLC ²	Oil and gas exploration	Texas, USA	31 December	-	-

¹ Xstate Energy Limited incorporated on 4 February 2021.

² Xstate Texas LLC was dissolved in October 2021 due to cessation of activities in Texas.

Joint operations

Xstate Energy Limited ("**Xstate Energy**") holds working interests in assets owned and operated by Blue Sky Resources Limited ("**BSR**"), a Canadian oil and gas production entity. Xstate Energy holds a 25% working interest in the Red Earth area oil producing assets and lands, and a 35% working interest in the Alberta Plains area oil and gas producing assets and lands. BSR is the operator of the oil and gas assets and identifies the proportional share of income, expenditure, assets and liabilities attributable to Xstate Energy as a result of operations. The operation is considered a joint arrangement for accounting purposes.

The principal place of business is Alberta, Canada.

24 PARENT COMPANY DISCLOSURES

As at, and throughout the financial year ended 31 December 2022, the parent entity of the Group was Xstate Resources Limited. Refer to note 27 for contingent liabilities that impact the parent entity.

	2022 \$	2021 \$
Results of the parent entity		
Total comprehensive loss for the year	(3,491,983)	(4,219,685)
Financial position of parent entity at year end		
Current assets	356,822	281,858
Total assets	845,039	4,145,396
Current liabilities	(87,019)	(166,419)
Total liabilities	(146,196)	(222,527)
Total equity of the parent entity comprising of:		
Share capital	58,083,830	58,083,830
Reserves	267,958	472,852
Accumulated losses	(57,652,945)	(54,633,813)
Total equity	698,843	3,922,869

25 SUBSEQUENT EVENTS

Subsequent to the end of the financial year, on 31 January 2023, the Company entered into an agreement with Blue Sky Resources Limited to acquire a 25% working interest in two oil discovery wells that have historically been drilled, completed and have recovered oil. These wells are planned to be imminently equipped and entered into production. In addition to these wells, the acquisition included 10,240 gross acres of unencumbered crown land containing various potential exploration prospects. The acquisition was achieved at a cost of C\$750,000 to Xstate, with a contingent success payment of C\$66,250 (net to Xstate) per well should the two discovery wells achieve production rates greater than 100 bopd (gross) for a period of 45 consecutive days when entered into production.

On 13 March 2023, Shareholders approved a 10-for-1 consolidation of the Company's issued securities. On 17 March 2023, the Company's ordinary shares were consolidated from 3,215,181,651 to 321,519,150 and the outstanding options on issue were consolidated from 115,500,000 to 11,550,000. The exercise price of the outstanding options transitioned from \$0.005 to \$0.05, however no change was made to the expiry date.

Other than the matters identified above, 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

	2022	2021
	\$	\$
BDO Audit (WA) Pty Ltd		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	81,478	43,636
Total remuneration for audit and other assurance services	81,478	43,636
<i>Taxation services</i>		
Tax compliance services	18,528	20,623
Total remuneration for taxation services	18,528	20,623
BDO (Canada) LLC		
<i>Taxation services</i>		
Tax compliance services	15,032	-
Total remuneration for taxation services	15,032	-
Total remuneration of BDO Audit (WA) Pty Ltd and its related parties	115,038	64,259

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.

26 AUDITORS' REMUNERATION (continued)

Non-BDO audit firms	2022	2021
	\$	\$
<i>Audit and other assurance services</i>		
Audit and review of financial reports	-	-
Total remuneration for audit and other assurance services	-	-
<i>Taxation services</i>		
Tax compliance services	5,045	4,828
Total remuneration of non-BDO audit firms	5,045	4,828
TOTAL REMUNERATION OF AUDIT FIRMS	120,083	49,191

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 2022 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) other than as disclosed in note 3, 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 2022.

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



ANDREW CHILDS

Executive Chairman

Dated at Perth, Western Australia this 31st day of March 2023.

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 2022, 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 2022 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.

Carrying value of oil and gas assets

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>At 31 December 2022, the Group held significant carrying value of oil & gas assets as disclosed in Note 16.</p> <p>The assessment of impairment triggers includes judgement in assessing a range of external and internal factors to determine whether the oil & gas assets require impairment testing to be undertaken in accordance with Australian Accounting Standard AASB 136 Impairment of Assets. Accordingly, this matter was considered to be a key audit matter.</p>	<p>Our audit procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • 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; • 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; • Reviewing the Directors' minutes and ASX announcements for evidence of consistency of information with management's assessment of the carrying value; • Considering whether there were any other facts and circumstances that existed to indicate impairment testing was required; and • Assessing the adequacy of the related disclosures in note 16 to the financial report.

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 2022, 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

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 27 to 32 of the directors' report for the year ended 31 December 2022.

In our opinion, the Remuneration Report of Xstate Resources Limited, for the year ended 31 December 2022, 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, appearing to read 'Ashleigh Woodley'. Above the signature, the letters 'BDO' are written in a simple, blocky font.

Ashleigh Woodley

Director

Perth

31 March 2023

STOCK EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 27 March 2023. It is noted to Shareholders that the below information is reported following the 10-for-1 consolidation approved by Shareholders on 13 March 2023:

1. Distribution of ordinary shares

Range	Total holders	Ordinary shares	% of issued capital
1 - 1,000	883	87,996	
1,001 - 5,000	609	2,101,990	
5,001 - 10,000	533	4,335,586	
10,001 - 100,000	1,667	65,895,367	
100,001 and over	512	249,089,211	
Total	4,204	321,519,150	

There were 3,167 holders of less than a marketable parcel of ordinary shares.

2. Substantial shareholders

Shareholders	Number held
Blue Sky Resources Limited	<u>28,617,247</u>

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)
31-May-22	11,550,000	6	31-Jan-2024	5

It is noted that the number of options and their exercise price have been adjusted since grant date to account for the 10-for-1 consolidation approved by shareholders at the General Meeting held 13 March 2023.

XSTATE RESOURCES LIMITED
STOCK EXCHANGE INFORMATION

5. Twenty largest shareholders

Shareholders	Ordinary shares	
	Number held	% of issued shares
BLUE SKY RESOURCES LIMITED	28,617,247	8.90%
SUBURBAN HOLDINGS PTY LTD <THE SUBURBAN SUPER FUND A/C>	5,937,129	1.85%
MS XING LIU	4,404,170	1.37%
MR DAMIAN ARTHUR FURNELL	4,000,000	1.24%
MR TEIK TATT OH	3,800,000	1.18%
MS JUSTINE DAVINA MICHEL <LAMBRECHT INVESTMENT A/C>	3,313,973	1.03%
HERA INVESTMENTS PTY LTD	3,166,108	0.98%
MANDALARI PTY LTD <APAFI SF A/C>	3,030,682	0.94%
MR ANTONI MARGOS	3,000,000	0.93%
CITICORP NOMINEES PTY LTD	2,970,650	0.92%
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAIL CLIENT DRP>	2,901,700	0.90%
MRS DONNA MARY AITKEN	2,550,000	0.79%
MR CHUNGHANG LI	2,500,000	0.78%
DR JOHN TOMASICH	2,300,000	0.72%
MR DAVID MAXWELL MCARTHUR	2,125,557	0.66%
MR XUAN TAI TRINH	2,000,000	0.62%
MS CHUN ZENG	1,997,903	0.62%
HEMSBY SUPER PTY LTD <HEMSBY SUPER FUND <A/C>	1,800,000	0.56%
MRS XIANHONG LIN	1,800,000	0.56%
PETROLEUM VENTURES PTY LTD	1,757,000	0.55%
TEGIF PTY LTD	1,700,000	0.53%

XSTATE RESOURCES LIMITED
STOCK EXCHANGE INFORMATION

6. Petroleum lease interests at 27 March 2023

Project name	Location	Working interest
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%
Red Earth Oil Field	Northern Alberta, Canada	25%
Alberta Plains Oil and Gas Fields	Southern Alberta, Canada	35%

7. Gold tenements listing at 27 March 2023

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