



ABN 96 009 217 154

31 October 2016

ASX Limited

Electronic lodgement

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## September 2016 Quarterly Activity Report

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### Summary

- Xstate has a strong balance sheet and is well positioned to pursue value creating production asset acquisitions onshore U.S.A.
- The Board remains committed to finding a project that can take advantage of current oil pricing and asset market trends in the US which deliver sustainable value to shareholders.
- Based on an active business development program coupled with ongoing prudent cost management initiatives and the potential drilling of the high impact Dempsey gas well, Xstate anticipates an exciting start to 2017.

### New Ventures

During the quarter, the Company reviewed several new asset opportunities in the oil and gas sector in California as well as Texas and Colorado.

As a result, the Company has commenced preliminary due diligence and is discussing a potential deal structure on a particularly attractive acquisition onshore California that is currently in production.

The Board remains committed to finding a project that can take advantage of current oil pricing and asset market trends, which deliver sustainable value to all shareholders. Subject to agreement on a suitable deal structure the Board feels the current acquisition target could meet this criterion.

The Company plans to update investors and the market when investment opportunities are further progressed in terms of due diligence and potential commitment.

It is expected the Company will continue to review and pursue additional opportunities in the current quarter whilst progressing discussions on the high-graded Californian production asset.

### Corporate

#### Maintaining Low Overheads

The Company is committed to maintain expenditure and overheads to a minimum until it has acquired an asset and associated operating activity.

#### Cash and Liquid Assets

As at 30 September 2016 the Company held cash and cash equivalents of \$2.35m.

## Exploration – Sacramento Basin Joint Venture – Onshore Northern California

Exploration leases have continued to be maintained within the Sacramento Basin during the quarter. Xstate has a working interest (WI) of between 10% and 25% in lease areas, which cover conventional gas prospects.

### Dempsey Conventional Gas Prospect (XST 10% WI)

The Dempsey prospect remains the current focus of the Joint Venture's exploration activities, primarily because of the potential for near term production given the prospect's location beneath the joint ventures existing production facilities.

The Dempsey well's proposed depth is 3,200m and is estimated to cost between US\$3.5 and US\$4.0mm to drill (based on a 100% equity with Xstate's share between US\$350,000 and \$400,000).

### Alvares Conventional Gas Prospect (XST 25% WI)

The Alvares gas appraisal project provides the opportunity to appraise a large anticline originally drilled in 1982, which encountered extensive gas, shows and flowed gas to surface.

## Production – Sacramento Basin

Rancho - Capay Gas Field (XST 10% WI in 4 wells) & Los Medanos Gas Field (XST 10% WI in 3 wells)

Xstate acquired a working interest in minor gas production rights in the Sacramento Basin onshore California in 2013. The purpose of the acquisition was to acquire the leases for further exploration and to access an extensive 3D seismic database from which to generate new exploration opportunities. Production for the quarter was as follows:

Production	September 2016 Quarter	June 2016 Quarter
Gross mcf ** (100%)	16,804	2,748
Net XST mcf (after Royalty)	1,168	187

\*\*mcf – Thousand Cubic feet gas

Production was materially up quarter on quarter in line with our expectations. As previously advised by the operator production during the September quarter was anticipated to be materially higher than the June quarter because of improved domestic gas prices and pipeline availability issues being rectified.

### XSTATE RESOURCES LIMITED – TENEMENT LIST

Project name	Location	Working Interest
Alvares Prospect	Sacramento Basin Onshore Northern California	25%
Dempsey Prospect	Sacramento Basin Onshore Northern California	10%
California AMI Prospects	Sacramento Basin Onshore Northern California	24%
Rancho-Capay Gas Field	Sacramento Basin Onshore Northern California	10%
Los Medanos Gas Field	Sacramento Basin Onshore Northern California	10%

Projects are continuously reviewed for their strategic fit and are expected to be modified over time to reflect industry conditions.

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For and on behalf of the Board of Xstate Resources Limited

**Cosimo Damiano**

Managing Director

Xstate Resources Limited

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Email: [cosimodamiano@xstate.com.au](mailto:cosimodamiano@xstate.com.au)**Disclaimers**

Exploration in the USA is conducted on leases grant by Mineral Right owners, in Xstate's case primarily private individuals or groups. Leases can vary in size from very small parcels (part of an acre) to large landholdings (covering a few square miles). Leases generally are for 5 years and rentals are paid annually. There are no work commitments associated with the leases. Some leases are 'Held By Production' and royalties, generally less than 20% of revenues, are paid to mineral right owners in lieu of rentals. Xstate has not listed all it leases as it is impractical and not meaningful for potential project value assessment in a conventional gas play. A detailed listing of leases may also lead to a loss of competitive advantage and consequent reduced value to Xstate shareholders.

## Appendix 5B

# Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

**Name of entity**

XSTATE RESOURCES LIMITED

**ABN**

96 009 217 154

**Quarter ended ("current quarter")**

30 SEPTEMBER 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(45)	(199)
(b) development	-	-
(c) production	-	-
(d) staff costs	(72)	(171)
(e) administration and corporate costs	(121)	(367)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	5	8
1.5 Interest and other costs of finance paid	(1)	(2)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(234)</b>	<b>(731)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
2.2 Proceeds from the disposal of:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>-</b>	<b>-</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	-	3,291
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	(339)
3.5 Proceeds from borrowings	-	150
3.6 Repayment of borrowings	(13)	(55)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>(13)</b>	<b>3,047</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	2,600	38
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(234)	(731)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(13)	3,047
4.5 Effect of movement in exchange rates on cash held	(1)	(2)
<b>4.6 Cash and cash equivalents at end of period</b>	<b>2,352</b>	<b>2,352</b>

5. <b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	2,352	2,600
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>2,352</b>	<b>2,600</b>

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
64
-

Includes salaries and fees paid to directors, as well as superannuation paid on behalf of directors. Also includes consultancy fees and corporate and accounting services paid to companies associated with the directors.

**7. Payments to related entities of the entity and their associates**

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
-
-

## Mining exploration entity and oil and gas exploration entity quarterly report

<b>8. Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

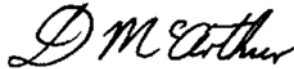
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<b>9. Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1 Exploration and evaluation	530
9.2 Development	-
9.3 Production	-
9.4 Staff costs	62
9.5 Administration and corporate costs	85
9.6 Other (provide details if material)	-
<b>9.7 Total estimated cash outflows</b>	<b>677</b>

<b>10. Changes in tenements (items 2.1(b) and 2.2(b) above)</b>	<b>Tenement reference and location</b>	<b>Nature of interest</b>	<b>Interest at beginning of quarter</b>	<b>Interest at end of quarter</b>
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	N/A			
10.2 Interests in mining tenements and petroleum tenements acquired or increased	N/A			

### **Compliance statement**

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



Sign here:

Director and Company Secretary

Date: 31 October 2016

Print name: David M McArthur

### **Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.