



ABN 96 009 217 154

31 January 2022

Announcement to ASX

Electronic lodgement

DECEMBER 2021 QUARTERLY ACTIVITY REPORT

HIGHLIGHTS

- **Total net production (before Royalty) of 41,509 boe**, steady from the last quarter
- **Net Operating Receipts of A\$712,000** from Red Earth and Alberta Plains production assets
- **3 Development wells planned** for Alberta Plains properties in the first quarter of 2022
- Farmin to Austrian exploration well, Anshof-3, leads to **oil and gas discovery with testing to commence in Q1 2022**
- Blue hydrogen and electricity generation concepts under review for Borba gas discovery

Xstate Resources Limited (**ASX:XST**) ("**Xstate**", "**XST**" or "**the Company**") is pleased to provide the Quarterly Activities Report for the quarter ending 31 December 2021.

CHAIRMAN'S COMMENT

Mr Andrew Childs, Executive Chairman commented; "*This quarterly report closes out a transformative year for Xstate. The Company now has significant revenue from its Canadian producing assets, and is using the funds to acquire further production and participate in exploration opportunities. Our first exploration opportunity (Anshof-3) delivered a discovery of oil and gas. The Company is looking forward to expanding upon our solid production base in 2022 and assessing new opportunities.*"

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

The December quarter saw steady production and increased revenue in Canada. Xstate's December quarter share of production from the Company's Canadian assets were 41,509 boe, which delivered net operating receipts for the quarter of A\$712,000. The increase noted in receipts quarter-on-quarter is primarily attributable to sustained increased oil prices.

The focus for Xstate's Canadian assets remains optimizing and increasing production and cashflow in this increasing oil price environment. A three well development drilling program is planned for the first quarter of 2022, subject to regulatory permits being acquired. The total gross cost of the 3 well development program is estimated at CAD\$2,500,000 (A\$2,800,000). Xstate's 35% share of the program will be CAD\$900,000 (A\$1,008,000). The Company is anticipating a gross increase in production of 200 BOEPD, which is 70 BOEPD net to Xstate. Should the oil price remain above US\$80/bbl, these wells pay back the capital expenditure in under 12 months. It is currently expected that the optimisation program will be funded entirely from the operating cashflow.

XST share of Oil and Gas production in Canada	December Quarter 2021	September Quarter 2021
Gross Sales boe*	41,509	42,140
Net XST boe (after Royalty)	36,124	36,673

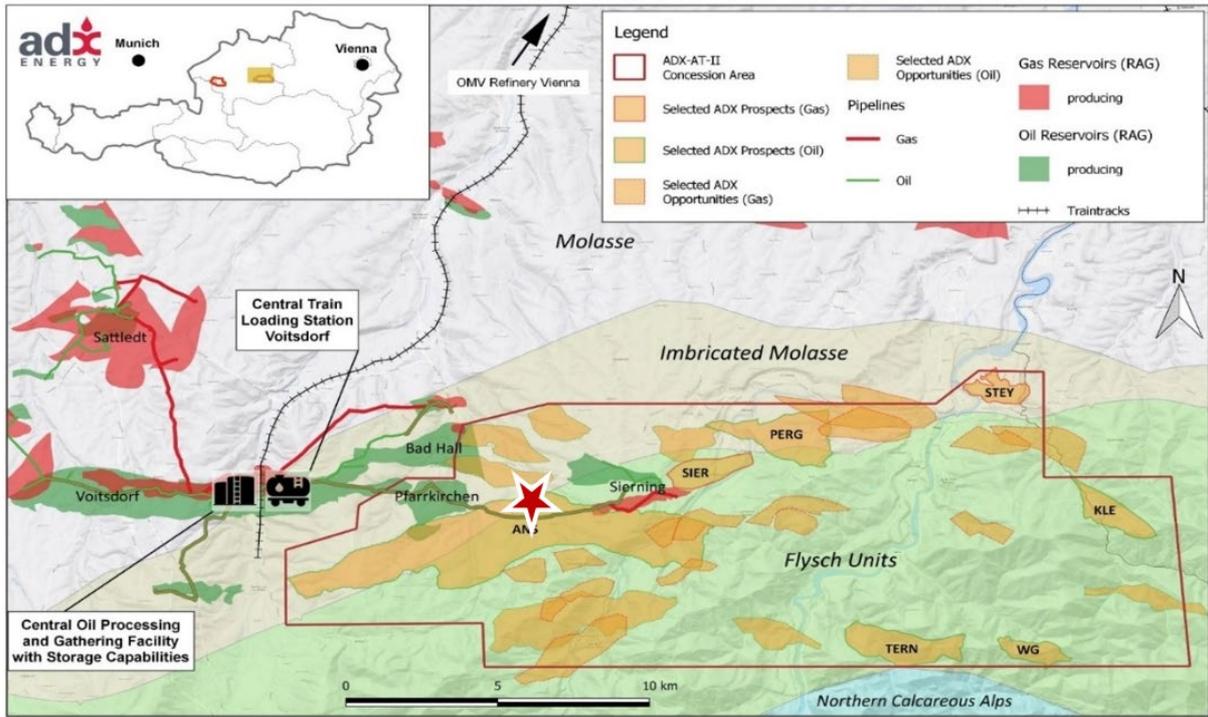
*barrels of oil equivalent (boe) - gas converted to boe using a 6:1 ratio



Xstate's Producing Assets in Canada

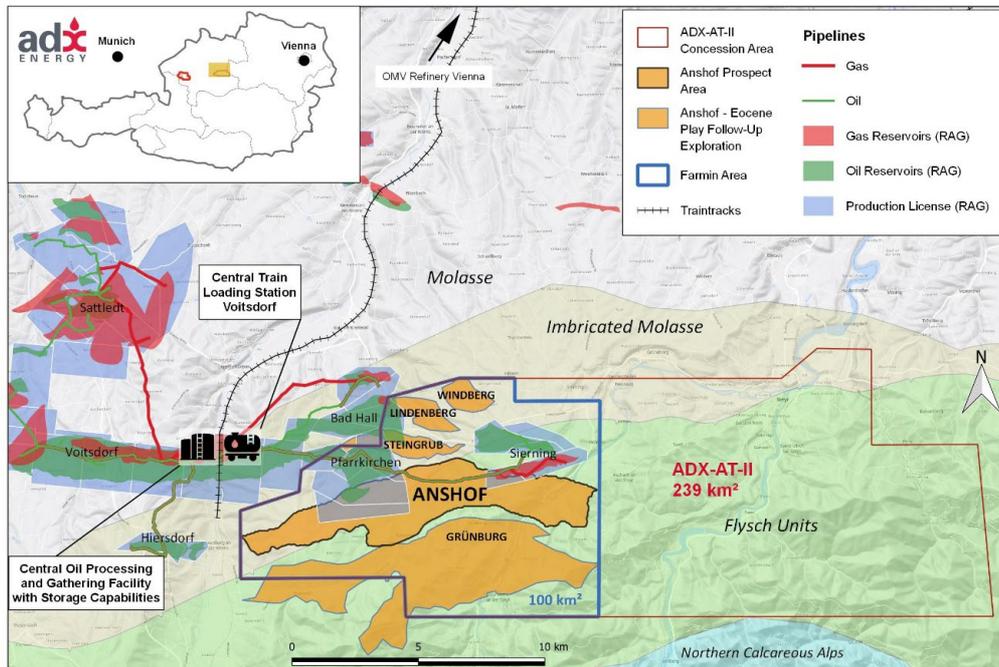
AUSTRIA: ANSHOF-3 EXPLORATION WELL (20% WI)

During the quarter, Xstate announced it had executed a farmin agreement with ADX Energy ("ADX") to join in the drilling of the Anshof-3 exploration wells in the Mollasse Basin of Austria.



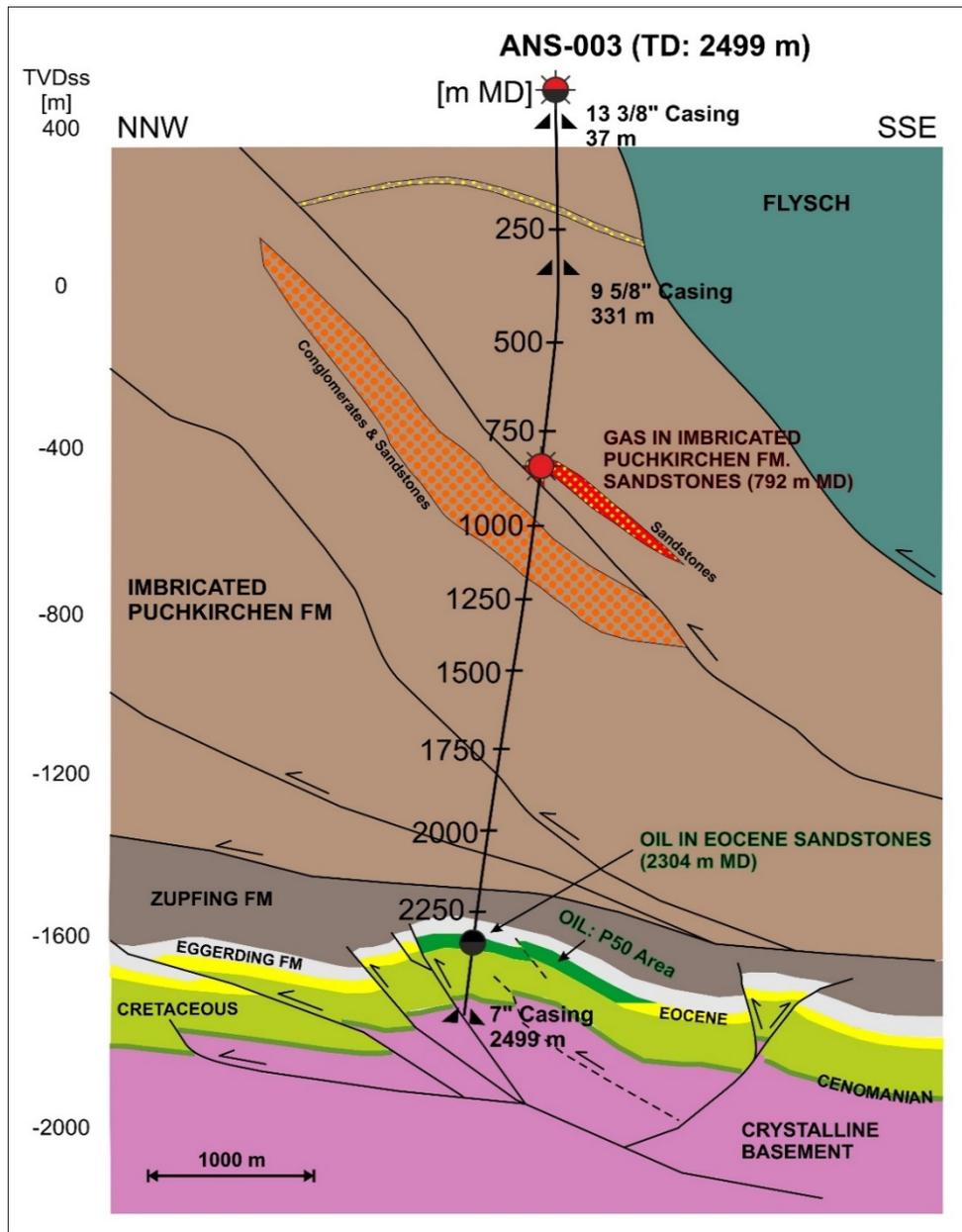
Anshof Location Map

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



Anshof Prospect Map

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



Schematic Cross section of Anshof 3

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

Petrophysical analysis of Anshof-3 identified the following:

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

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

Additionally, after the end of the reporting period the Operator has announced that Anshof-3 will be production tested in Q1 2022. Preparations and planning has commenced to undertake an oil test (Eocene Discovery) and a gas test (Miocene Discovery). The RED Drilling & Services GmbH (RED) W-102 workover rig will be mobilised to the Anshof-3 location during the week commencing 1 March 2022.

The objectives of the well testing program are as follows:

- determine the oil flow rate potential of both the Eocene sands and the Miocene sands as well as continuity of the reservoirs based on pressure response and production performance; and
- determine the sequence of potential commercial production based on production performance, reserves potential and economics.

It is expected that first commercial production can be achieved within 6 months of a successful testing program.

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

Sacgasco Limited (ASX:SGC) (the Operator) initiated feasibility studies to produce hydrogen from the discovered natural gas at Borba as the Company seeks to capitalise on California's established and growing hydrogen transport infrastructure network of refuelling stations and the State's growing commitment to renewable energy as legislators lobby for a US\$300m Hydrogen Plan1.

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

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

Additionally, the Operator is investigating other opportunities for bespoke electrical generation in the region.

CALIFORNIA: SACRAMENTO BASIN PRODUCTION (VARIOUS WIs)

The Company continued to maintain leases in the Sacramento Basin during the quarter. Xstate has working interests (WI) of between 10% and 33% in oil and gas leases. In addition to our existing Sacramento Basin production, the Company is investigating workover and exploration opportunities to take advantage of the current high gas prices in California.

California has an unsatiated average 7 Bcf per day gas market. California imports over 90% of this natural gas from other US States and Canada. Reference Natural Gas prices for Sacgasco Gas Sales in the Sacramento Basin for the December Quarter were around US\$6.30 /mcf (AUD\$8.75 /mcf) significantly above the US Henry Hub benchmark gas price.

Oil and Gas production in California (mcf*)	December Quarter 2021	September Quarter 2021
Gross Gas	29,927	31,333
Net XST (after Royalty)	3,100	3,123
<i>Note: mcf = Thousand Cubic feet gas</i>		

XSTATE TENEMENT LISTING (as at 31 December 2021)

XSTATE RESOURCES LIMITED – SACRAMENTO BASIN TENEMENT LIST NORTHERN CALIFORNIA		
Project name	Category	Working Interest (WI)
Anshof 3 Farmin	Exploraiton	20%
Alvares Project	Appraisal	25%
Dempsey 1-15 Well	Exploration & Appraisal	10%
Dempsey Trend - (Includes Borba)	Active leasing 3 large prospects	33%
Rancho Capay Field	Production	10%
Malton field	Production	30%
East Rice East Creek Field	Production	10%
Los Medanos Gas Field	Production	10%
Dutch Slough Field	Production	30%
Denverton Field	Production	30%
Red Earth	Production	25%
Alberta Plains	Production	35%

APPENDIX 5B DISCLOSURES

ASX Listing Rule 5.4.1: Exploration expenditure during the quarter totalled \$1.18m. This comprises \$995k in respect of exploration drilling in Austria on the Anshof-3 well and \$185kin respect of ongoing Californian operations.

ASX Listing Rule 5.4.2: Production expenditure payments for Canadian oil and gas operations during the quarter were \$227k.

ASX Listing Rule 5.4.5: Payments to related parties totalled \$39k. These were in respect of Directors' salaries and superannuation payments, in addition to payments for corporate management services to a Director related entity.

This release was approved by the Board of the Company

Andrew Childs

Executive Chairman

Xstate Resources Limited

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About Xstate Resources Limited:

Xstate Resources (ASX:XST) is an ASX listed company focused on the oil and gas sector. The Company has existing oil and gas assets located in the California in the United States of America, Alberta in Canada and Austria. Xstate is presently pursuing new opportunities in the oil and gas sector onshore North America and around the world.

Leases:

US and Canadian exploration is conducted on leases granted by Mineral Right owners, including the respective Governments and private individuals or groups. Leases can vary in size from very small parcels (part of an acre) to large landholdings (covering a few square miles). Leases generally are for 5 years and rentals are paid annually. There are no firm work commitments associated with the leases. Some leases are 'Held By Production' (HBP) and royalties are paid to mineral right owners in lieu of rentals. SGC has not listed all its leases as it is impractical and not meaningful for potential project value assessment in a conventional natural gas play. A detailed listing of leases may also lead to a loss of competitive advantage and consequent reduced value to XST shareholders.

Competent Person:

The technical information provided has been supervised and reviewed in detail by XST's Competent Person, Mr Greg Channon, who is also a Non-Executive Director of the company. Mr Channon is a qualified geoscientist with over 35 years of oil and gas industry experience and a member of the American Association of Petroleum Geologists and the South East Asian Exploration Society and is a graduate of the Australian Institute of Company Directors. He is qualified as a competent person in accordance with ASX listing rule 5.41. Mr Channon consents to the inclusion of the information in this report in the form and context in which it appears.

Appendix 5B

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

Name of entity

Xstate Resources Limited

ABN

96 009 217 154

Quarter ended ("current quarter")

31 December 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	712	1,186
1.2 Payments for		
(a) exploration & evaluation	(1,180)	(3,133)
(b) development	-	-
(c) production	(227)	(471)
(d) staff costs	(18)	(200)
(e) administration and corporate costs	(61)	(377)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	(1)
1.6 Income taxes paid	-	(4)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(774)	(3,000)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	-	-
(d) exploration & evaluation	-	-
(e) investments	-	-
(f) other non-current assets	-	(1,775)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	8
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	(1,767)
3. Cash flows from financing activities			
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	5,000
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	75
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(343)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(15)	(95)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	(15)	4,637
4. Net increase / (decrease) in cash and cash equivalents for the period			
4.1	Cash and cash equivalents at beginning of period	1,517	815
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(774)	(3,000)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(1,767)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(15)	4,637

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(5)	38
4.6	Cash and cash equivalents at end of period	723	723

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	723	1,517
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	723	1,517

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	39
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

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

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities		
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities		
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(774)
8.2 (Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	-
8.3 Total relevant outgoings (item 8.1 + Item 8.2)	(774)
8.4 Cash and cash equivalents at quarter end (item 4.6)	723
8.5 Unused finance facilities available at quarter end (item 7.5)	-
8.6 Total available funding (item 8.4 + item 8.5)	723
8.7 Estimated quarters of funding available (item 8.6 divided by item 8.3)	0.93
<i>Note: if the entity has reported positive relevant outgoings (ie a net cash inflow) in item 8.3, answer item 8.7 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.7.</i>	
8.8 If item 8.7 is less than 2 quarters, please provide answers to the following questions:	
8.8.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: No. Operating cash outflows from the December quarter included \$995k in exploration costs for the commencement of drilling of the Anshof-3 well in Austria. Should sustained oil prices be observed, it would indicate that continued revenues from Canadian assets should provide sufficient working capital to fund the residual costs for the Anshof-3 well and for working capital purposes.	
8.8.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: No. As noted above, it is expected that cash flows from the Canadian operations will support the working capital requirements.	

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

8.8.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes. On the basis of the information above that continued oil revenues from Canada will provide sufficient cash flow for planned operations moving forward.

Note: where item 8.7 is less than 2 quarters, all of questions 8.8.1, 8.8.2 and 8.8.3 above must be answered.

Compliance statement

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

Date: 31 January 2022

Authorised by: Board of Directors
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.