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ABN 96 009 217 154

Announcement to ASX **30 October 2020**

September 2020
Quarterly Activity & Cashflow Report

Summary

- **Construction of all weather drill pad for Borba 1-7 gas well commences post quarter-end**
- **Borba drilling expected to commence in late Q4 2020**
- **3 km of access roadwork was completed for the Borba well earlier in the year**
- **Drilling rig for Borba selected and can mobilise on short notice**
- **New venture opportunities are being reviewed in line with the Company's strategic objectives to secure a producing asset**
- **Chris Hodge resigns as a Non-Executive Director and Greg Channon is appointed a Non-Executive Director**

Operations

Xstate is a participant in the following projects in the Sacramento Basin of California.

- **Gas Production (Various 10 - 30%)**

Xstate holds various working interests in minor gas production rights in the Sacramento Basin onshore California. The purpose of the initial investment was to acquire the leases for further exploration and to access an extensive 3D seismic database from which to generate new exploration opportunities, whilst also securing strategic infrastructure and growing gas production.

Gross production during the quarter averaged 349 mcf/day compared to 384 mcf/day during the previous quarter.

Production for the quarter was as follows:

Production	September 2020 Quarter	June 2020 Quarter
Gross mcf ** (100%)	32,123	34,920
Net XST mcf (after Royalty)	3,522	3,529

***mcf – Thousand Cubic feet gas*

Gas flows were slightly reduced in the quarter by operational interruptions.

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- **Borba Prospect (Xstate 24%)**

Post quarter-end, construction of the all-weather drilling pad and future production base for the Borba 1-7 conventional natural gas well commenced. Highly experienced local contractor, NOR CAL construction, will build the pad which will measure 300 feet by 175 feet and will sit some 16 inches above field level.

Joint venture operator, Sacgasco Limited (76% interest) have advised as follows:

The Borba 1-7 well will be drilled to test multiple stacked 3D seismic anomalies in the interval from 3,200 feet (975 metres) to 9,500 feet (2,800 metres) depth and finish in basement rocks. The prospective interval covers around 6,300 feet (1,920 metres).

The well will be drilled with a small directional component to optimise the intersection of more than 10 separate seismic anomalies on 3D seismic. The well is expected to take some 25 to 35 days to drill and operations are expected to commence this calendar year.

Drilling of the Borba 1-7 well will commence as soon as final preparations for drilling are completed and additional leasing is documented. The well is already fully permitted with the State and local authorities.

At the shallow Kione Formation, the Borba well will test a strong seismic anomaly separated from the sandstones that were productive at this level in the nearby West Ord Bend Gas Field. Production has also been encountered in the Borba vicinity from other shallower sand reservoirs.

At around 5,600 feet (1,700 metres) the well is projected to be in a mapped structural closure 140 feet (43 metres) up-dip from a 1998 well which encountered multiple zones over a 570 feet (175 metres) interval of high gas shows and porosity. These shows were not flow tested at the time, but these sands intervals have been productive in the local area.

Deeper seismic anomalies are interpreted to indicate sand reservoir development and natural gas shows are expected. The basement has previously been found to be fractured and gas productive.

The well will be drilled with the largest capacity rig in the area and will require a 10,000 psi rated control stack on the 9 5/8" casing below 6,000 feet. The well will have 3 strings of protective pipe.

A Resource Report by an independent party in relation to the Borba prospect is being finalised and will be released once final working interests are settled.

- **Alvares Project (Xstate 25%)**

The Alvares project involves the appraisal of the Alvares-1 gas discovery made in 1982 on a large structure mapped on 2D seismic. The plan is to re-enter the original well bore, test the integrity of the casing, wireline log to select perforation zones, and if warranted, to test the main objective. Regulatory approvals have been recieved.

Xstate is awaiting guidance from the Operator as to timing for this operation.

Corporate

On 17 August 2020 the Company was pleased to appoint Mr Greg Channon to the Board as a Non-Executive Director. Mr Channon is a geologist with over 35 years' of global oil and gas experience in a great variety of technical and leadership roles. He is currently the Executive Chairman of RL Energy and a Non-Executive Director of Samson Oil and Gas. During his career Mr Channon has worked with a range of E&P companies and has lived and worked in Austrlia, New Zealand, China, Africa and the USA.

On 17 August 2020 Mr Chris Hodge stepped down from the Board in his capacity as a Non-Executive Director. The Company sincerely thanks Mr Hodge for his past efforts as a director of the Company.

Appendix 5B Related Party Disclosures

The Company makes the following disclosures in relation to the $100,000 noted as paid to related parties of the Company as detailed in section 6 of the accompanying Appendix 5B to this report.

Payments of outstanding Director fees to former Director	$10,056
Payments of Director salaries	$21,745
Payment of Company Secretarial fees incl. repayment of overdue debts	$15,000
Payment of Company Management fees incl. repayment of overdue debts	$52,800

Strategic and New Business

The primary strategic objective remains for Xstate is to secure a producing asset or producing assets.

Cash and Liquid Assets

As at 30 September 2020 the Company held cash and cash equivalents of $293,000.

Shareholder Base

As at 30 September 2020, Xstate had 1,449,240,898 shares on issue and 1,547 shareholders. The top 20 holders held 684,834,607 shares representing 47.25% of the Company's issued capital.

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Tenement Listing

XSTATE RESOURCES LIMITED – SACRAMENTO BASIN TENEMENT LIST NORTHERN CALIFORNIA		
Project name	**Category**	**Working Interest (WI)**
Alvares Project	Appraisal	25%
Dempsey 1-15 Well	Exploration & Appraisal	10%
Dempsey Trend - (Includes Borba)	Active leasing 3 large prospects	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%
Denverton Field	Production	30%
Projects are continuously reviewed for their strategic fit and are expected to be modified over time to reflect industry conditions.		

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.

For and on behalf of the Board of Xstate Resources Limited

For further details please contact:

David McArthur
Managing Director
Xstate Resources Limited
Tel Office: +61 8 9435 3200

About Xstate Resources Limited

Xstate Resources (**ASX Code: XST**) is an ASX listed company focused on the oil and gas sector. The Company has existing gas exploration assets located in the Sacramento Basin, California and associated gas production. Xstate is presently pursuing new opportunities in the oil and gas sector onshore North America.

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Appendix 5B

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

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Name of entity	
Xstate Resources Limited	
ABN	**Quarter ended ("current quarter")**
96 009 217 154	30 September 2020

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (9 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	-	-
1.2	Payments for		
	(a) exploration & evaluation	(164)	(339)
	(b) development	-	-
	(c) production	-	-
	(d) staff costs	(29)	(179)
	(e) administration and corporate costs	(111)	(203)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	(4)
1.7	Government grants and tax incentives	8	18
1.8	Other (provide details if material) *	-	(62)
1.9	**Net cash from / (used in) operating activities**	**(296)**	**(769)**

* 1.8 – net outflow relating to the subscription agreements legal proceedings

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	-	-

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (9 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	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**-**	**-**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	562	562
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(20)	(37)
3.5	Proceeds from borrowings	(10)	(23)
3.6	Repayment of borrowings	-	-
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**	**532**	**502**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	56	541
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(296)	(769)
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)	532	502

Consolidated statement of cash flows		Current quarter $A'000	Year to date (9 months) $A'000
4.5	Effect of movement in exchange rates on cash held	1	19
4.6	**Cash and cash equivalents at end of period**	**293**	**293**

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	293	56
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)**	**293**	**56**

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	100
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.

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7.	**Financing facilities** *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.*	**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)	562	562
7.4	**Total financing facilities**	**562**	**562**

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.	

Unsecured convertible note facility entered into on 9 July 2020 with sophisticated investors. Notes are unsecured, accruing interest at 10% pa payable quarterly in arrears, maturing 9 July 2021.

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	(296)
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)	(296)
8.4	Cash and cash equivalents at quarter end (item 4.6)	293
8.5	Unused finance facilities available at quarter end (item 7.5)	-
8.6	Total available funding (item 8.4 + item 8.5)	293
8.7	**Estimated quarters of funding available (item 8.6 divided by item 8.3)**	**0.99**

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.

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. The entity expects the cash outflows from operating activities to reduce in the forthcoming two quarters as cash outflows in Q3 comprised several payments relating to long outstanding debts that had accumulated, particularly for exploration and administrative costs.

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:

Yes. The entity is aware that further capital is required for the continued exploration of projects for which the entity has an interest in, and the Board is confident of its ability to raise sufficient capital for these operations when required.

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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. The entity believe operations will be able to be continued through the methods identified in points 1. and 2. above, in addition to the capability for deferral of certain expenditures should they be required.	

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: 30 October 2020

Authorised by: David McArthur – Managing Director
(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.

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