



ABN 96 009 217 154

31 January 2017

ASX Limited

Electronic lodgement

December 2016 Quarterly Activity Report

Summary

- Xstate has agreed to acquire a working interest in two producing oil and gas fields in the Los Angeles Basin onshore California for US\$13m.
- The Sansinena oil and gas field has certified NSAI Proven and Probable ("2P") reserves of 9.5mmboe net to Xstate with an estimated NPV10 valuation of US\$75.6m¹.
- The Company entered into Binding Subscription Agreements with four sophisticated Asian investors to raise A\$25m at 3.8 cents per share.
- The operator of XST's Sacramento Basin acreage has advised that Dempsey-1 is scheduled for drilling in April-May 2017, and targets a 1 Tcf prospect with multiple pay potential in conventional gas reservoirs beneath a producing field.

New Ventures – Los Angeles Basin acquisition

During the quarter, the Company executed a Purchase and Sales Agreement ("PSA") to acquire a working interest in two producing oil and gas fields located in the prolific Los Angeles Basin.

The Company has agreed to acquire a 24.5% working interest (20.8% net revenue interest) for US\$13m as previously advised. Under the terms of the PSA, the Closing date is February 17, 2017 and the transaction Effective date is January 1, 2017.

The Xstate Board and Management consider the proposed transaction to be a transformational event for the Company. The acquisition of the Sansinena oil field provides shareholders with immediate production, cash flow and low cost reserves that have been certified by Netherland, Sewell & Associates, Inc. ("NSAI"), one of the most respected global firms in independent reserves assessment and reporting.

The completion of this transaction will facilitate the Company's transition from a pure explorer to a producer, and deliver the Company's first transaction in line with its low risk production acquisition strategy onshore California.

Cash and Liquid Assets

As at 31 December 2016 the Company held cash and cash equivalents of \$1.457m. The main expenditure item during the quarter was the payment of a non-refundable deposit of US\$625,000 for the LA Basin acquisition, which has resulted in Xstate being granted exclusivity until 17 February 2017.

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

Funding Update

Xstate entered into binding Subscription Agreements with four unrelated sophisticated Asian investors to raise a total of A\$25,000,000 at 3.8 cents per share to fund the acquisition of the Company's intended Los Angeles Basin oil fields transaction.

Due to the delays by the investors in meeting currency transfer regulatory requirements, the Company has agreed with the investors to an extension to 10 February 2017.

Xstate's corporate advisors to this transaction, Sanston Securities Australia Pty Ltd ("Sanston"), have advised that the completed offshore funds transfer form must be approved by the Indonesian Regulatory Authorities, as with all large overseas transfers.

The Board have been advised that this is normal practice, however it is not possible to confirm when such approval will be granted for the transfers.

The investors and Sanston are attempting to expedite this process to ensure the investors honour the subscription agreements in a timely manner to enable the Company to meet its purchase obligations for the purchase of the intended Los Angeles Basin Oil Transaction.

At this stage Xstate has no reason to believe the funds will not be received, and will advise the market of any further changes.

The Board of Xstate appreciates the support we have received from our existing shareholders and looks forward to welcoming the new investors as we deliver our first transaction in line with our low risk production acquisition strategy onshore California.

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	December 2016 Quarter	September 2016 Quarter
Gross mcf ** (100%)	15,174	16,804
Net XST mcf (after Royalty)	1,055	1,168

***mcf – Thousand Cubic feet gas*

The operator has advised that production was down 10% quarter on quarter in line with our expectations due to continued line pressure variations.

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	30%
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.		

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 Operator Sacgasco Limited ("Sacgasco") advises, the Dempsey Prospect is a large, 3-way dip, fault bound closure with conventional sandstone reservoir targets mapped at multiple (seven) stacked levels. The Dempsey structure sits beneath a developed gas field from which the joint venture currently produces. The gas plant has available capacity that would be utilised for a fast track development of any gas reservoirs proved up by the Dempsey 1 well.

Sacgasco maps seven target gas reservoir levels beginning with two small (1-3 Bcf unrisked Best Estimate Deterministic recoverable Prospective Resource) seismic amplitude defined, extension of the shallow producing Forbes Sandstone reservoir system. The targets then extend down to total depth through a series of older Cretaceous reservoirs interpreted to be more broadly distributed.

Individual, unrisked Deterministic Prospective Resources for these primary targets range from 116 bcf to 352 Bcf of recoverable gas. Should all the stacked reservoirs be full of gas, the cumulative unrisked recoverable Prospective Resources within the prospect could approximate 1 Tcf.

These estimates of prospective petroleum resources must be read in conjunction with the cautionary statement that follows:

"The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially movable hydrocarbons."

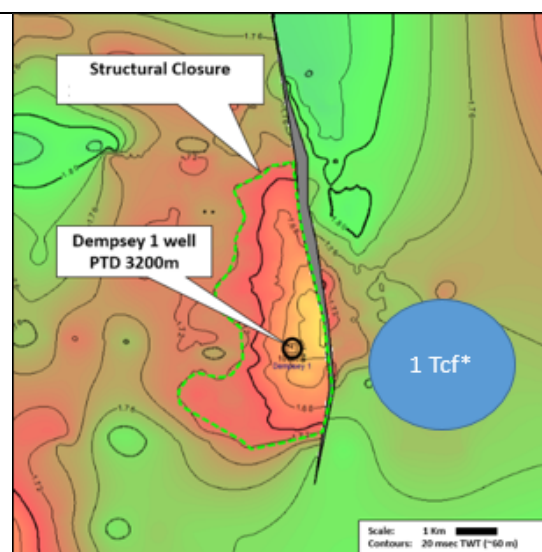
Multi-target conventional-sands appraisal and exploration project located under existing gas production infrastructure.

Dempsey prospect interpreted to have a very high probability of flowing commercial quantities of gas.

7 interpreted stacked independent targets ranging from 1 Bcf (shallow) to 350 Bcf (older).

Summed total (100%) un-risked best Estimate recoverable Prospective Resource on a deterministic basis is 1 Tcf (~166 million BOE).

Dempsey Prospect Structure Schematic



Source: Sacgasco ASX Announcement 17 January 2017

For and on behalf of the Board of Xstate Resources Limited

Cosimo Damiano

Managing Director

Xstate Resources Limited

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Competent Persons Statement

The technical information provided has been reviewed by Mr Chris Hodge, Technical Director of Xstate Resources Limited. He is a qualified geologist with over 30 years technical, commercial and management experience in exploration for, appraisal and development of oil and gas. Mr Hodge consents to the inclusion of the information in the form and context in which it appears.

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.

¹ Netherland Sewell and Associates – Sansinena Commodity Price assumptions

- Oil and NGL prices are based on November 21, 2016, NYMEX West Texas Intermediate prices and are adjusted by lease for quality, transportation fees, and regional price differentials.
- Gas prices are based on November 21, 2016, NYMEX Henry Hub prices and are adjusted by lease for energy content, transportation fees, and regional price differentials.
- All prices, after adjustments and (before adjustments), are shown in the following table

Period	Oil & NGL Price US\$/bbl	Gas Price US\$/MMbtu
2016	43.21 (47.49)	3.04 (2.95)
2017	46.73 (51.01)	3.21 (3.12)
2018	48.58 (52.86)	3.10 (3.01)
2019	49.51 (53.79)	3.03 (2.94)
2020	50.54 (54.82)	3.05 (2.96)
2021	51.56 (55.84)	3.09 (3.00)
2022	52.84 (57.12)	3.17 (3.08)
2023	53.70 (57.98)	3.31 (3.22)
2024+	54.22 (58.50)	3.47 (3.38)

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")

31 DECEMBER 2016

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	-	-
1.2 Payments for		
(a) exploration & evaluation	(17)	(216)
(b) development	-	-
(c) production	-	-
(d) staff costs	(31)	(202)
(e) administration and corporate costs	(150)	(517)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	8	16
1.5 Interest and other costs of finance paid	-	(2)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(190)	(921)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	(692)	(692)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 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)	-	-
2.6	Net cash from / (used in) investing activities	(692)	(692)

2.1(d) US\$500,000 deposit for a 49% interest in the LA Basin Oil Fields

3.	Cash flows from financing activities		
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)	(68)
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	(13)	3,034

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,352	38
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(190)	(921)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(692)	(692)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(13)	3,034
4.5	Effect of movement in exchange rates on cash held	-	(2)
4.6	Cash and cash equivalents at end of period	1,457	1,457

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	1,457	2,352
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)	1,457	2,352

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**

58

-

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

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
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.		

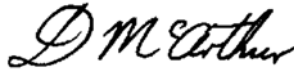
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9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	-
9.2 Development	-
9.3 Production	-
9.4 Staff costs	77
9.5 Administration and corporate costs	69
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	146

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
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 January 2017

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.