ABN 96 009 217 154

31 January 2019

ASX Limited **Electronic lodgement**

December 2018
Quarterly Activities & Cash Flow Report

Summary

- **Xstate raised $960,000 (before costs) by way of a two tranche placement to professional and sophisticated investors in Australia.**
- **The Company termintated the sale of its working interests in the Dempsey Project area to Raven Energy Limited (ASX:REL) for non performance by Raven and retained cash proceeds of approximately USD$88,500 and AUD$250,000 of shares paid by Raven to Xstate being non refundable payments as part of the transaction.**
- **Post quarter the Singapore High Court granted leave to the Company to commence Contempt of Court proceedings against Tanzil Hidayat. The Company has also served bankruptcy papers on Hong Hung Thiam and a Court Hearing is scheduled for late February 2019.**
- **Post quarter end Xstate increased its working interest in the Alvares Gas Appraisal Project to 25% (previously 21%) and the advised that the Alvares-1 re-entry well and testing program is now planned for the early North American summer.**

Comments

Xstate Resources Limited **(ASX: XST) ("Xstate" or "the Company")** is pleased to provide the following operational update in relation to its December 2018 quarter activities.

The focus of the Company during the December 2018 quarter was on strengthening the balance sheet in anticipation of Alvares re-entry well; high grading business development opportunities for execution in 2019 and pursuing the remaining two defendants through the Singapore High Court.

During the quarter, Xstate raised approximately $960,000 (before costs). The Placements resulted in the issue of approximately 320 million new fully paid ordinary shares in the Company ("**Shares**"), at an issue price of $0.003 per share. The placement was made pursuant to Section 708 of the Corporations Act and Rule 7.1 and Rule 7.1A of the ASX Listing Rules. Furthermore the Company receved approval to issue 33.33 million shares at $0.003 each to Directors in return for the retirement of $100,000 in fees owed to Directors.

Late January 2019, Xstate entred into a Strategic Alliance with Hillcrest Petroluem Ltd to jointly pursue oil and gas assets onshore Canada and USA. Xstate believes this is a valuable alliance that has the potential to benefit both Company's shareholders. Both parties are currently reviewing and working on potential asset acquisition targets that deliver immediate cash flow and near term upside.

Post quarter end the Company increased its working interest in the Alvares Appraisal Project to 25% (previously 21%) following the termination of the Bombora Natural Energy Pty Ltd farm out dated August 2016. The operator advised that the Alvares 1 re-entry and testing program is now planned for the early North American summer.

The focus for the Company in the next quarter is to successfully conclude its new business priorities, continue to grow gas production in the Sacramento Basin and to participate in a successful production test of the Alvares discovery well mid-2019.

Legal Update on Singapore Supreme Court Enforcement Action

On 11 October 2018, Xstate applied for leave to commence committal proceedings against Tanzil Hidayat (**"Tanzil"**). Leave was granted by the Singapore High Court on 15 January 2019 and Xstate commenced committal proceedings against Tanzil on 25 January 2019. A pre-trial conference for the committal proceedings has been scheduled for 11 February 2019.

In addition, on 29 October 2018, Xstate obtained a writ of sale and seizure (**"WSS"**) over the interests of Hong Hung Thiam (**"Hong"**) in his residential property. The WSS was registered with the Singapore Land Authority on 2 November 2018.

Further, on 25 January 2019, Xstate has commenced bankruptcy proceedings against Hong. A hearing has been scheduled for 28 February 2019

Xstate will continue its endeavours and determination to take all reasonable legal steps available to the Company to preserve its rights.

The Company will continue to keep shareholders fully informed of its progress.

New Ventures

The Board and Management has continued to actively seek to identify and evaluate further asset opportunities that meet Xstate's investment criteria and are capable of being delivered in a timely manner.

Post quarter end, Xstate announced it has entered into a Strategic Alliance with Hillcrest Petroleum Ltd (**"Hillcrest"**) to jointly pursue oil and gas acquisitions onshore Canada and USA (**"North America"**).

Under the Strategic Alliance, Xstate and Hillcrest (**the "Party(ies)" and/or "Partner(s)"**) will offer acquisition opportunities to each other in North America. Should a Partner elect to pursue one or more of the acquisition opportunities, the originating Party will facilitate the acquisition on behalf of the Partners, operate the acquired assets under joint venture agreements and implement field development plans intended to maximize the market value of the acquired assets with capital funding provided by the Partners.

Both Companies' core focus is on conventional oil and gas assets onshore with activities directed toward the acquisition, development and management of oil and gas assets with material upside.

The strategic relationship is based on mutual cooperation and assistance in order to support the growth of the respective Partners onshore North America. It's the intention of Xstate and Hillcrest that the Alliance will be the primary investment vehicle for material investments by either Party in the North American oil and gas industry. Xstate will support future investment by Hillcrest and vice versa Hillcrest will support future investments made by Xstate onshore North America. The Parties will use reasonable endeavours to include each other in investment opportunities where it is in the best interest of both Companies shareholders as a whole.

Cash and Liquid Assets

As at 31 December 2018 the Company held cash and cash equivalents of $0.998m.

The Company raised approximately $960,000 (before costs) via two private placements to new and existing domestic investors in October and November 2018. The placements were at an issue price of $0.003 per share and were made pursuant to Section 708 of the Corporations Act and Rule 7.1 and Rule 7.1A of the ASX Listing Rules.

Shareholder Base

At 31 December 2018, Xstate had 1,140,490,898 shares on issue and 1,583 shareholders. The top 20 holders held 540,656,685 shares representing 47.4% of the Company's issued capital.

Sacramento Basin Appraisal and Exploration Activities

Alvares Appraisal Project – Xstate 25% WI

The initial planned activity is to test the Alvares-1 gas discovery drilled in 1982 on a large structure mapped on 2D seismic. The objective is to test strong natural gas shows in a 1982 well over more than 1,500 metres below a thick, sealing shale at 2,350. Wireline log data from the Alvares-1 well indicates several zones with conventional gas reservoir potential.

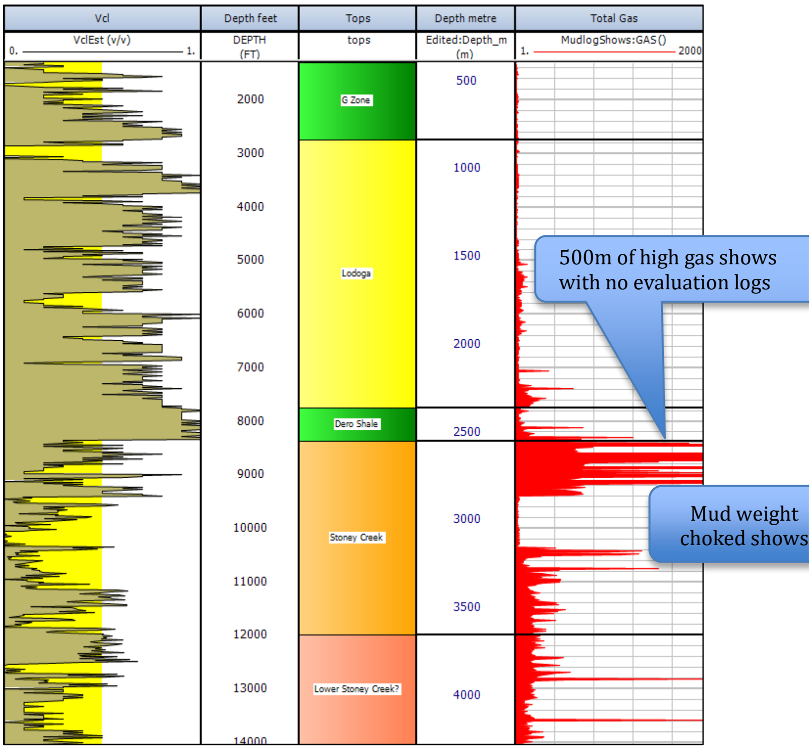
The operator advises that regulatory approvals have been obtained and intial program being planned is to test the integrity of the existing casing, then log through the casing to select performation zones and test the main objective.

During the month of January 2019 the operator advised that Alvares 1 re-entry and testing program is now planned for the early North American summer. Furthermore, the previous farm out of a 4% working interest by Xstate to Bombora Natural Energy Pty Ltd has been terminated and Xstate has reverted back to a 25% working interest in the Alvares Appraisal Project.

Alvares Appraisal Working Interests

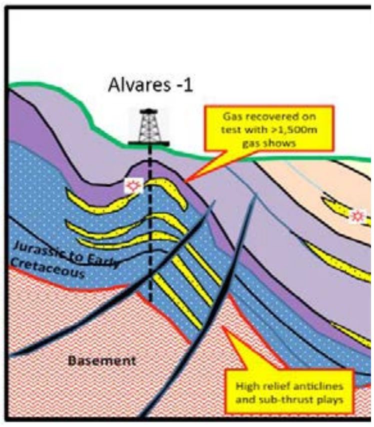
Xstate Resources Limited (ASX: XST)	**25%**
Sacgasco Limited (ASX: SGC) (Operator)	50%
Empyrean Energy PLC (LON: EME)	25%

Figure 1: Composite well log from Alvares – 1 showing the lithology (yellow is sandstone, brown is shale) and the strong gas shows



Source: Sacgasco Limited

Figure 2: Alvares -1 Appraisal Project



Dempsey Project Area – Xstate 10% to 24% WI

In the Dempsey Project Area the plan is to restart production at the Dempsey 1-15 well. Prior to the well being shut down due to some water accumulation the Dempsey 1-15 well was flowing a combined rate of 1,300 mcf per day of sales gas into the pipeline from four zones; Kione Sandstone and the combined older Zones 2, 3 and 4.

The Dempsey discovery is part of a portfolio of acreage and prospects, which the joint venture has secured in the Sacramento Basin. Xstate is very well positioned in the gas play which has been identified by the Dempsey well (in which Xstate holds 10%) due to the fact the Company has a significantly greater working interest (24%) in the wider Dempsey Area of Mutual Interest.

The presence of gas in several horizons at Dempsey has enhanced the potential of prospects and leads along the Dempsey trend – especially those with interpreted better quality reservoir porosity and permeability.

One such prospect has already been identified at the Anzus structure. This prospect has strong seismic attribute support at several levels, which based on correlation with Dempsey, can be indicative of either sandstone reservoir, or gas saturation, or both. Encouragingly, there is some amplitude conformance to structural closure.

Divesture of Dempsey Project Area Interests

On May 7, 2018, the Company announced the sale of its working interests in the Dempsey Project Area to Raven Energy Limited (**"Raven"; ASX:REL**). On August 17, 2018 a Deed of Variation amended the terms and extended the closing date to October 31, 2018. Under the terms of the original Binding Letter of Intent and Deed of Variation, Raven paid Xstate the cash sum of USD$88,464 and issued AUD$250,000 in Raven shares as non-refundable deposit payments in return for exclusivity until

October 31, 2018 at which point the balance of US$411,536 (total US$500,000 cash) and the remaining AUD$250,000 in shares was due and payable.

On 1 November 2018, Xstate terminated the transaction of the sale of its Dempsey Project Interests to Raven for non-performance by Raven. Xstate retained approximately US$88,500 cash and the A$250,000 of shares issued (approximately 138 million shares) by Raven, as these were paid and issued on a non-refundable basis.

Although the board of Xstate are disappointed with the default by Raven, The Dempsey Project Area has continued to perform strongly and the Company will now look at its strategic options.

At this stage Xstate will retain its working interests in the Dempsey Project Area and looks forward to working with the joint venture partners.

Production – Sacramento Basin

Xstate acquired a working interest in minor gas production rights in the Sacramento Basin onshore California in 2013 and early 2017. The purpose of the acquisitions 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 560 mcf /day down on the previous quarter due to reduced gas flows and the operator advises that remedial workovers are being planned.

Production for the quarter was as follows:

Production	December 2018 Quarter	September 2018 Quarter
Gross mcf ** (100%)	51,548	74,909
Net XST mcf (after Royalty)	5,924	9,677

***mcf – Thousand Cubic feet gas*

XSTATE RESOURCES LIMITED – SACRAMENTO BASIN TENEMENT LIST NORTHERN CALIFORNIA		
Project name	**Category**	**Working Interest (WI)**
Alvares Appraisal Well	Appraisal	25%
Alvares Project	Exploration & Appraisal	30%
Dempsey 1-15 Well	Exploration & Appraisal	10%
Dempsey Trend	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.

Glossary of Terms

Tcf: trillion cubic feet
mmbbl: million barrels
JV: joint venture
AMI: area of mutual interest
Bcf: billion cubic feet
mmboe: million barrels oil equivalent
WI: working interest
mcf: thousand cubic feet gas

For and on behalf of the Board of Xstate Resources Limited

For further details please contact:

Cosimo Damiano
Managing Director
Xstate Resources Limited
Tel Office: +61 8 9435 3200
Email: cosimodamiano@xstate.com.au

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.

+Rule 5.5

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	**Quarter ended ("current quarter")**
96 009 217 154	31 DECEMBER 2018

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	-	10
1.2	Payments for		
	(a) exploration & evaluation	(100)	(263)
	(b) development	-	-
	(c) production	-	-
	(d) staff costs	-	(55)
	(e) administration and corporate costs	(62)	(230)
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	-	(3)
1.7	Research and development refunds	-	-
1.8	Other (provide details if material) *	-	(169)
1.9	**Net cash from / (used in) operating activities**	**(162)**	**(710)**

* 1.8 – costs relating to the subscription agreements legal proceedings

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	-	-

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)	18	137
	(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**	**18**	**137**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of shares	971	971
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	(78)	(78)
3.5	Proceeds from borrowings	-	-
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**	**893**	**893**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	246	656
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(162)	(710)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	18	137
4.4	Net cash from / (used in) financing activities (item 3.10 above)	893	893
4.5	Effect of movement in exchange rates on cash held	3	22
4.6	**Cash and cash equivalents at end of period**	**998**	**998**

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	998	246
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)**	**998**	**246**

6.	**Payments to directors of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to these parties included in item 1.2	32
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

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**	**Current quarter $A'000**
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

8.	**Financing facilities available** *Add notes as necessary for an understanding of the position*	**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.

9.	**Estimated cash outflows for next quarter**	**$A'000**
9.1	Exploration and evaluation	387
9.2	Development	-
9.3	Production	-
9.4	Staff costs	100
9.5	Administration and corporate costs	115
9.6	Other (provide details if material)	125[1]
9.7	**Total estimated cash outflows**	**727**

1 – costs relating to the subscription agreements legal proceedings

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			

Monies noted as being received for sale of tenement are non-refundable deposit from Raven Energy Limited ("REL") for a Letter of Intent signed between REL and XST. As at date of this report, the agreement has been terminated, therefore no change in tenements held noted above.

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: Date: 31 January 2019

Director and Company Secretary

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.