



ABN 96 009 217 154

31st January 2014

ASX Limited

Electronic lodgement

December 2013
Quarterly Activity Report

KEY ACTIVITY

- **Joint venture agreement with Australian Oil Company (AOC) for onshore California.**
- **Identification of world class and paradigm changing gas prospect**
- **Agreed takeover of 75.90% of Bombora Energy Pty Ltd**
- **Issuing of 11 million share at 3 cents raising \$330,000 funds**

Joint venture with AOC

In December Xstate formed a joint venture with AOC covering the whole of onshore California, with the aim to explore, drill and if successful to develop major hydrocarbon resources. Xstate currently has a 30% of the joint venture and has been actively involved in prospect generation, drilling program design and leasing suggestions.

The joint venture purchased an additional 1,447 kilometres (900 miles) of 2D seismic data in the Northern Sacramento Basin which along with its existing 2D and 3D data base has enabled Keith Martens (Technical Director of AOC and lead project explorationist) to expand the JV play types and generate a plethora of prospects. The seismic interpretation and integration with regional aeromagnetic/gravity data and publically available information continues.

Identification of world class and paradigm changing gas prospect Sacramental Basin

Other than set out below the company doesn't intend to release detailed information on the actual petroleum geology (including wells and seismic data) as this is key intellectual property of the JV and onshore California is an extremely competitive leasing environment.

Currently the joint venture has identified three different reservoir/seal play types (I to III) in the basin, over which the leasing of land is actively progressing, with mean prospect size ranging in size between 500 BCF to greater than 5 TCF, these potential resources numbers are based upon known basin averages, well data and seismic mapping.

Reservoir/seal play Type I possible size in excess of 5 TCF

As previously announced XST plans to twin a drilled high pressure gas well, which recovered gas with excellent properties, methane 87%, ethane 2%, propane 1%, inerts 9% and minimal carbon dioxide



ABN 96 009 217 154

0.003%. With the acquisition of the additional seismic data and subsequent remapping of the prospect the possible closure has increased and become more robust. Xstate has a 25% WI.

In addition, the JV has undertaken a re-interpretation of the petrophysical logs acquired from the existing well and is extremely encouraged in the identification of the paradigm changing interpreted thickness of the net gas bearing sandstone reservoir.

The JV has been evaluating well design to minimise possible reservoir damage that can occur when drilling into highly pressured reservoirs due to the high density muds required to control the well. We are currently planning to drill to the known top seal depth, set 10,000 PSI burst pressure casing to surface and then balanced drill into the reservoir. Further information on the well design and local government approvals will be released prior to spudding of the well.

The main geological risk is the permeability/porosity of the sandstone reservoir and its ability to produce at a commercial rate.

Two additional Type I leads have been identified on the existing seismic dataset. The JV has expanded leasing operations with the aim of capturing the crest of these two leads prior to spudding of the high pressure well. New seismic acquisition over these leads is planned to be acquired later in the year. Xstate has a 30% WI.

Reservoir/seal play Type II possible size in excess of 1 TCF

The JV has identified a world class prospect trend based upon a deep geological knowledge of the basin and the use of seismic stratigraphy. The prospect trend has been identified on 2D and 3D seismic and the first prospect has recently been completely leased (Xstate WI 10%). The JV is expanding its landholding over this trend and hopefully by the end of the second quarter an addition prospect will be under our control. It is expected that a further four or five such leads will be identified and leased prior to drilling the first well towards the end of 2014 (Xstate WI 30%).

Reservoir/seal play Type III possible size in excess of 0.5 TCF

Somewhat similar to prospect Type II above, the JV has also completely leased one of this play type and is aware of several follow up leads/prospect along this trend. Due to the magnitude of the possible prospect size involved in the I and II play types the JV has decided to slow down leasing along this trend until after the drilling of the high pressure well. Xstate WI 25%

Santa Maria Basin – Porter Ranch anticline possible size 10 million barrels recoverable

Xstate currently has a 22.5% WI in the Porters Ranch anticline within the Santa Maria Basin, the current well plan is drill to a total depth of 1,500 m (4,900 feet) and hopefully intersect producible oil within the Monterey Formation. Although the well will penetrate an anticlinal structure updip from a previously drilled well, the major risk is the quality of the oil if present as surrounding wells have intersected oil with an API in the range of 8 to 20. In simple terms oil with API 8 to 14 has to be produced using steam, API 14 to 18 range produced using hot water and above API 18 will flow naturally. Currently an application to drill the well has been submitted to the local authorities and Xstate is hopeful that a drilling licence will be issued during the first quarter of 2014. The possible 10 million barrel resource size estimate is based on



ABN 96 009 217 154

surface geology, 2D seismic data and production parameters from nearby wells within the Santa Maria Basin.

Gas Production Assets

XST has a 10% WI in seven gas wells in the Sacramento Basin, these wells were purchased in 2012 when USA gas prices were below USD 2.00/mcf, with the current cold weather in the USA prices are now in excess of USD 5.00/mcf. The rationale for the purchase was that it gave access to an extensive 3D seismic database which the joint venture has utilised in generating new exploration plays. The gas production volumes were consistent with the previous quarter.

Extent of Xstate Landholdings

As of the end of December Xstate has a gross exposure to 21,000 acres covering all three reservoir/seal play types and the Porter Ranch anticline.

Planned activity – January quarter

Subsequent to the end of the December Quarter, the company has continued leasing over defined prospects and, subject to approvals and rig availability, plans to be ready to drill two wells by end June 2014

Corporate

On the 24th October Paul Cartwright was appointed as a Director of Xstate Resources and subsequently was appointed as Managing Director on 6th November upon the resignation of Gary Jeffery.

On the 12th December Andrew Childs resigned and was replaced by Chris Hodge as a Director of Xstate Resources.

Placement of shares

On the 12th December 2013 the company placed an additional 11 million shares at 3 cents raising \$330,000 gross by way of a placement to Xstate resources long term supporters. Some \$150,000 of the funds raised have been converted to USD to limit the company's exposure to any fluctuation in the value of the Australian dollar.



ABN 96 009 217 154

Agreed acquisition of 75.90% of Bombora Energy Pty Ltd

On the 18th November 2013 Xstate announced the agreed acquisition of 75.90% of Bombora Energy Pty Ltd, for the consideration of 12,892,084 shares in Xstate Resources, and the acquisition was approved by Xstate Resources at the general meeting held on the 10:00AM on the 31st January 2014.

The acquisition of Bombora included 22.5% working Interest in over 9000 acres of Leases on Porter Ranch which are prospective for Monterey oil. The acquisition also included rights to a prospective water disposal well and other attractive oil and gas prospects.

Number of Xstate shares on issue

At the end of the December Quarter Xstate had approximately 140 million issued shares, post the Bombora takeover another 12.9 million shares will be issued so as of the end January Xstate will have approximately 153 million shares on issue.

For and on behalf of the Board of Xstate Resources Limited

Paul Cartwright
Managing Director

Competent Person

The technical information provided has been compiled by Mr Paul Cartwright, Managing Director of XState Resources Limited. He is a qualified petroleum geologist with over 25 years technical, commercial and management experience in exploration for, appraisal and development, and transportation of oil and gas and mineral and energy resources. Mr Cartwright has reviewed the results, procedures and data contained in this release. Mr Cartwright consents to the inclusion of the above information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/01, 01/06/10, 17/12/10

Name of entity

XSTATE RESOURCES LIMITED

ABN

96 009 217 154

Quarter ended ("current quarter")

31 DECEMBER 2013

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(133)	(464)
(b) development	-	-
(c) production	-	-
(d) administration	(116)	(576)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	1
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes received / (paid)	-	-
1.7 Other – Costs associated with Blue Sky Langsa acquisition proposal	-	(139)
Net Operating Cash Flows	(249)	(1,178)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(1)	(2)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other - sale of exploration assets	-	903
Net investing cash flows	(1)	901
1.13 Total operating and investing cash flows (carried forward)	(250)	(277)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(250)	(277)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	330	546
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – capital raising costs	(40)	(40)
	Net financing cash flows	290	506
	Net increase (decrease) in cash held	40	229
1.20	Cash at beginning of quarter/year to date	218	11
1.21	Exchange rate adjustments to item 1.20	-	18
1.22	Cash at end of quarter	258	258

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	73
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

1.23 - Includes salaries and fees paid to directors, as well as superannuation paid on behalf of directors. Also includes corporate and accounting services paid to a company associated with one of the directors.

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

None

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	\$100	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	-
4.2 Development	-
4.3 Production	-
4.4 Administration	122
Total	122

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	258	218
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	258	218

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference *securities <i>(description)</i>	Nil	N/A	N/A	N/A
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	N/A	N/A	N/A	N/A
7.3 *Ordinary securities **	140,327,429	140,327,429	N/A	N/A
7.4 Changes during quarter (a) Increases through issues 1,000,000 1,274,510 11,000,000 (b) Decreases through returns of capital, buy-backs		1,000,000 1,274,510 11,000,000	2.2 1.79 3.0	N/A 2.2 1.79 3.0
7.5 *Convertible debt securities <i>(description)</i>	Nil	N/A	N/A	N/A
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	N/A	N/A	N/A	N/A
7.7 Options <i>(description and conversion factor)</i>	19,500,000 2,500,000	- -	<i>Exercise price</i> Various 5 cents	<i>Expiry date</i> 31 May 2016 31 December 2016
7.8 Issued during quarter	2,500,000	-	5 cents	31 December 2016
7.9 Exercised during quarter	N/A	N/A	N/A	N/A
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>	Nil	N/A		
7.12 Unsecured notes <i>(totals only)</i>	Nil	N/A		

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: 
Company Secretary

Date: 31 January 2014

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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 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.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

== == == == ==