



ABN 96 009 217 154

30th April 2014

ASX Limited

Electronic lodgement

March 2014

Quarterly Activity Report

HIGHLIGHTS

- **Additional 2D seismic acquired to high-grade prospects with joint venture partner Australian Oil Company (XST 30%)**
- **Type 1 reservoir/seal play anticlinal trend identified with multi-TCF potential**
- **Pre-drill activity on the Porter Ranch anticline, Santa Maria Basin**
- **Gas production in line with expectation**
- **Xstate landholding increased to 23,000 acres**
- **Planned activity: lease further land ahead of drilling later this year**
- **Successfully raised \$1 million via a placement and acquired 75.9% of the shares in Bombora Energy Pty Ltd.**

Further 2D seismic acquisition in joint venture with AOC (XST 30%)

The joint venture has been able to source an additional 165 kilometres of 2D seismic data over its Type I gas play. The data is currently being copied in the USA and we expect to receive the field tapes by end May. The new data enables further delineation of the crestal configuration of several of the JV key Type I prospects.

Identification of Type I plays possible size in excess of 5 TCF trend (XST 25 to 30%)

Following the interpretation of the recently purchased 1,447 kilometre of 2D seismic data the joint venture has identified a significant multiple TCF sized Type I reservoir/seal anticlinal trend which the JV intends to acquire acreage over.

The JV is pleased with its decision to explore for hydrocarbons onshore California and the extension of the Type I play substantiates the previously announced multiple TCF size of the opportunity. As the reservoir/seal Type I play area now extends over several additional leads and prospects the JV has decided to strategically delay the application to drill its high pressured gas well until additional landholdings are acquired so protecting the companies' intellectual property.



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It is expected that by the end of the June quarter Xstate will be able to advise that the additional land has been acquired, explain in detail the petroleum geology and be in a position to apply to drill several of the Type I reservoir/seal anticlines by the end of 2014. An example of a process required in leasing land onshore California is included in the attached appendix.

Type II (possible size in excess of 1 TCF) and III (possible size in excess of 0.5 TCF) plays (XST 10 to 30%).

A several Type II prospects has been identified and enquiries are progressing on the availability of MR over this opportunity. As previously stated in the December Quarter the JV has not acquired any further lands along the Type III trend.

Porter Ranch anticline, possible size 10 million barrels recoverable Santa Maria Basin (XST 22.5%).

During the March Quarter the JV operator in California received a request from San Luis Obispo County to supply further information about the proposed Porter Ranch drilling program and an invitation to attend a public meeting. The meeting was held on the evening of the 22nd March with a major focus on water usage, fire risk, drilling noise and trucking export routes upon an oil discovery. It is expected another meeting will be required before the JV submits its final documentation to the County and hopefully we will receive a decision about our drilling application before the end of the June quarter.

Gas production assets (XST 10%)

The seven gas continue to perform as expected and generate a slightly increased cash flow due to the higher gas price during the recent North American cold winter. The strategic purchase of these well allows Xstate to hold by production an area of land which has further exploration potential and permission to utilise some pre-existing 3D data.

Extent of Xstate landholdings

Over the last quarter Xstate and its joint venture partner AOC has continued to lease further lands over the Type I exploration play.

As of the end of March Xstate has a gross exposure to 23,000 acres covering all three reservoir/seal play types and the Porter Ranch anticline.

Planned activity – June quarter

Subsequent to the end of the March Quarter, the company continued leasing over defined prospects and, subject to approvals and rig availability, plans to be ready to drill one oil well by end June 2014



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Corporate

Placement of shares

On the 19th February 2014 the company placed an additional twenty million shares at 5 cents raising \$1,000,000 gross by way of a placement to long term supporters of the Company. Some \$850,000 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, on the basis that a significant portion of the funds will be expended in USA.

Acquisition of 75.90% of Bombora Energy Pty Ltd completed

Following shareholder approval the acquisition of 75.90% of Bombora Energy Pty Ltd was completed on the 31st January 2014 by way of the issue of 12,892,084 shares in Company.

Number of Xstate shares on issue

At the end of the March Quarter Xstate had approximately 175 million issued shares following the completion of the Bombora takeover, share placement and satisfaction of Directors fees.

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.



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Appendix

“Acquiring 5% Mineral Rights over three thousand acres in Colusa County, California

For those of you who are unfamiliar to the scope and sometimes the lengths you need to pursue in mineral rights leasing I have included below a leasing commentary from our landman in California. In this case he is trying to acquiring a 5% mineral rights leasing over several thousand acreages over Colusa County, California. In this example the names have been changed for reasons of confidentiality.

The current known mineral rights (MR) owner is Mrs Jean Winterbottom who unfortunately passed away in Portland, Oregon in 1994. The lawyer who handled her Will stated she only had \$16,000 in cash and no known property. We were able to track down her daughter Rebecca Winterbottom who said that her two brothers, Keith and Peter Winterbottom let her keep whatever assets her mother had. Keith Winterbottom confirmed he let Rebecca keep his cash share, but was unaware at the time of the 5% MR that Jean their mother owned. Keith said their brother Peter Winterbottom was in prison when his mother died and did not receive any share of the estate. So although we are trying to obtain a copy of the Will from Portland, Oregon it is our understanding that all assets were to be shared equally by her three children. If the Will can't be found, we will assign Jean's 5% MR to her three children each as to a 1/3 of the 5% MR. Keith and Peter will definitely sign the lease and I am sure Rebecca will also sign, given the circumstances so we should have 100% signed shortly.”

As you can see from this commentary, leasing land can be almost like a detective in tracking down who is the actual owner (even if they didn't even know they were the owner), confirming they are the legal owner and then arranging for the lease to be signed. Conversely in other cases it can be easier as one ranch owner might be the 100% MR owner over 1,000 acres. Notwithstanding the time and effort required you quite often are only able to track down and lease between 75 to 85% of a prospect prior to spudding.

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 MARCH 2014

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 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	(50)	(50)
(b) development	-	-
(c) production	-	-
(d) administration	(123)	(123)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1	1
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes received / (paid)	-	-
1.7 Other – cash on acquisition of subsidiary	3	3
Net Operating Cash Flows	(170)	(170)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
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	-	-
Net investing cash flows	-	-
1.13 Total operating and investing cash flows (carried forward)	(170)	(170)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(170)	(170)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	1,000	1,000
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	(39)	(39)
	Net financing cash flows	961	961
	Net increase (decrease) in cash held	791	791
1.20	Cash at beginning of quarter/year to date	258	258
1.21	Exchange rate adjustments to item 1.20	(35)	(35)
1.22	Cash at end of quarter	1,014	1,014

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	58
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	350
4.2 Development	-
4.3 Production	-
4.4 Administration	100
Total	450

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	1,014	258
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1,014	258

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 **	174,791,058	174,791,058	N/A	N/A
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	14,463,629 20,000,000	14,463,629 20,000,000	5.3 cents 5.0 cents	5.3 cents 5.0 cents
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 17,000,000 2,500,000	- - -	<i>Exercise price</i> Various Various 5 cents	<i>Expiry date</i> 31 May 2016 31 December 2015 31 December 2016
7.8 Issued during quarter	17,000,000	-	Various	31 December 2015
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:  Date: 30 April 2014
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 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.

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