



ABN 96 009 217 154

28 January 2016

ASX Limited

Electronic lodgement

December 2015
Quarterly Activity Report

Summary

- Xstate continues to review in detail several value-adding production opportunities onshore in the USA; targeting those assets where undeveloped reserves can be accessed in the event of rising oil or gas price. Such lower risk assets will complement our existing high impact appraisal and exploration portfolio assets in the Sacramento basin.
- In the Sacramento Basin, discussions continue with a number of potential funding partners – specifically targeting the potential to drill the Dempsey prospect in 2016. Related discussions continue for the Alvares prospect where consideration is being made to re-enter the existing well bore in order to conduct a flow test program.

Exploration

SACRAMENTO BASIN – Onshore Northern California

Exploration leases on the most attractive prospects have continued to be maintained during the quarter and the Joint Venture has ongoing detailed discussions with a number of potential funding partners.

Dempsey Conventional Gas Prospect (XST 10% WI)

The Dempsey prospect remains the current focus of the Joint Venture's plans – primarily because of the potential for near term production located as it is beneath Xstate's existing production facilities.

Dempsey's proposed drilling depth is 3,200m and is estimated to cost between US\$4.5 and US\$5.3mm to drill (100% cost).

The total (100%) unrisks recoverable prospective resource from 7 interpreted reservoir zones, on a best estimate deterministic basis, is approximately 1TCF.



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Alvares Conventional Gas Prospect (XST 25% WI)

The Alvares gas appraisal prospect involves the appraisal drilling of a large anticline originally drilled in 1982 and which had extensive gas shows and flowed gas to surface.

It contains a total (100%) unrisks recoverable prospective resource on a best estimate deterministic basis of 2.4TCF.

The Joint Venture is currently investigating the feasibility to re-enter the existing well bore to conduct a series of flow tests which may be a low cost option to validate the productivity of gas sands identified in the original discovery well but not tested. If successful it may be possible to complete and produce gas from the well

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	Dec 2015 Quarter	Sep 2014 Quarter
Gross mcf ** (100%)	33,068	31,675
Net XST mcf (after Royalty)	2,298	2,201

***mcf – Thousand Cubic feet gas*

Other: Santa Maria Basin, Arnaudo and Water Disposal Project

Leases covering the Porter Ranch oil prospect (XST 22.5%) in the Santa Maria Basin expired at the end of the quarter. Given poor risk economics in the current low oil-price environment, it has been decided not to renew.

The Arnaudo gas prospect leases (XST 10%) in the Sacramento Basin were also not renewed, but on the basis of having a much smaller prospective resource size than the flagship Dempsey and Alvares prospects.

The SCU #124 water disposal project (XST 13.25%) will be discontinued due to stringent new licensing conditions imposed by the State.



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Corporate

Revised Growth Strategy

The Board is committed to pursue a revised strategy of adding low operating cost, conventional oil and gas production assets with undeveloped reserves to the Company's portfolio. Such assets are favourably priced in the current oil price environment and provide the opportunity to access additional production and reserves in the event of rising oil or gas prices. It is intended that such lower risk production assets will provide cash flow continuity, increased balance sheet strength and compliment XST's existing high impact appraisal and exploration portfolio in the Sacramento basin.

Planned Activity – March 2016 Quarter

- Complete detailed evaluation and negotiations to acquire value-adding opportunities where undeveloped reserves can be accessed in the event of rising oil or gas price
- Ongoing discussions with interested companies to farmout the Dempsey and Alvares prospects
- Continue to firm drilling preparations for Dempsey and the feasibility of a potential re-entry and flow-test programme for Alvares

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%



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Changes in Reporting Period: As noted in the body of the report, Porter Ranch oil prospect, Arnaudo gas prospect and the SCU #124 water disposal project will be discontinued. Projects are continuously reviewed for their strategic fit and are expected to be modified over time to reflect industry conditions.

For and on behalf of the Board of Xstate Resources Limited

Chris Hodge
Managing Director

Competent Person

The technical information provided has been compiled by Mr Chris Hodge, Managing Director of Xstate Resources Limited. He is a qualified petroleum geologist with over 35 years technical, commercial and management experience in exploration for, appraisal and development of oil and gas and mineral and energy resources.

Mr Hodge has reviewed the results, procedures and data contained in this release.

Mr Hodge consents to the inclusion of the above information in the form and context in which it appears.

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 moveable hydrocarbons.

US exploration is conducted on leases grant by Mineral Right owners, in XST'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. XST 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 XST shareholders.

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 2015

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	(46)	(203)
(b) development	-	-
(c) production	-	-
(d) administration	(102)	(440)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes received / (paid)	-	-
1.7 Other – surrender of bond	-	15
Net Operating Cash Flows	(148)	(628)
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)	(148)	(628)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(148)	(628)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	165
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	(6)	(6)
	Net financing cash flows	(6)	159
	Net increase (decrease) in cash held	(154)	(469)
1.20	Cash at beginning of quarter/year to date	192	490
1.21	Exchange rate adjustments to item 1.20	-	17
1.22	Cash at end of quarter	38	38

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	76
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 consultancy fees and corporate and accounting services paid to companies associated with the directors. Includes payments withheld by directors as disclosed in the previous quarter.

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	50	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	-
4.2 Development	-
4.3 Production	-
4.4 Administration	80
Total	80

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	38	192
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	38	192

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 **	238,061,695	238,061,695	N/A	N/A
7.4 Changes during quarter (a) Increases through issues * (b) Decreases through returns of capital, buy-backs	-	-	-	-
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>	2,500,000 19,500,000	- -	<i>Exercise price</i> 5 cents Various	<i>Expiry date</i> 31 December 2016 31 May 2016
7.8 Issued during quarter	-	-	-	-
7.9 Exercised during quarter	N/A	N/A	N/A	N/A
7.10 Expired during quarter	17,000,000	-	Various	31 December 2015
7.11 Debentures <i>(totals only)</i>	Nil	N/A		
7.12 Unsecured notes <i>(totals only)</i>	Nil	N/A		

* Shares issued in lieu of consultancy fees

+ 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:  28 January 2016
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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