



ABN 96 009 217 154

29 April 2016

ASX Limited

Electronic lodgement

March 2016 Quarterly Activity Report

Highlights

- Subsequent to the quarter end (7 April 2016) Xstate raised a total of \$416,327 via a Private Placement and Convertible Note.
- Also subsequent to the quarter end (14th April 2016), Xstate entered into a binding letter of intent (LOI) with Sunset Exploration Inc. to acquire various working interests in three conventional onshore fields in California, subject to Xstate completing its due diligence.
- The capital raisings and LOI represent the first stage in implementation of Xstate's revised growth strategy – being to add low cost profitable conventional oil and gas production assets to the Company's portfolio.

New Ventures

CALIFORNIA - Onshore

Xstate entered into a binding letter of intent to acquire various major working interests via staged acquisition and work program funding across three conventional oil fields onshore California. The fields have proven historical production and undeveloped potential.

The transaction is subject to funding and satisfactory completion of due diligence by Xstate with a 30 day exclusivity period for Xstate to complete its due diligence, followed by an additional 60 days to complete funding.

The deal provides Xstate with entry to a potentially significant production and resources base at a low entry cost. The reserve and resource potential of the assets will be more fully described at the conclusion of due diligence.

It is considered that the 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 these lower risk production assets will provide cash flow continuity and complement XST's existing high impact appraisal and exploration portfolio in the Sacramento basin.



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Exploration

SACRAMENTO BASIN – Onshore Northern California

Exploration leases on the most attractive prospects have continued to be maintained and the Joint Venture has continued 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\$3 and US\$4mm 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.

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.

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	Mar 2016 Quarter	Dec 2015 Quarter
Gross mcf ** (100%)	22,417	33,068
Net XST mcf (after Royalty)	1,519	2,298

***mcf – Thousand Cubic feet gas*



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Corporate

On 7th April, Xstate raised \$291,327 via a placement of 25% of Xstate's equity capital (58 million shares) at an issue price of 0.5 cents per share. A further \$125,000 was raised through a convertible note with a conversion price of 0.5 cents per share representing an additional 25 million shares.

The placement was made pursuant to Section 708 of the Corporations Act and rules 7.1 and 7.1(A) of the ASX Listing Rules.

The convertible note is subject to shareholder approval at a Meeting of shareholders to be held on 31 May, 2016.

Planned Activity – June 2016 Quarter

- Annual General Meeting 13 May, 2016
- General Meeting 31 May, 2016
- Continued due diligence of the Sunset Assets
- Screening of other attractive opportunities, especially where developed or undeveloped reserves with the potential for significant value uplift can be acquired with some or all of the following attributes:
 - Low initial cost
 - Phased programme with optionality
 - Proven undeveloped reserves
 - Ability to reduce costs
 - Risk reduction through application of technology (e.g. 3D seismic)
 - Appraisal or low risk exploration potential
 - Operatorship
- Discussions to continue with interested companies to farmout the Dempsey, and Alvares prospects



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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.		

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.



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Leases:

US exploration is conducted on leases granted 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 its 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 MARCH 2016

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	(28)	(28)
(b) development	-	-
(c) production	-	-
(d) administration	(14)	(14)
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	(42)	(42)
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)	(42)	(42)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(42)	(42)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	10	10
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – capital raising costs	-	-
	Net financing cash flows	10	10
	Net increase (decrease) in cash held	(32)	(32)
1.20	Cash at beginning of quarter/year to date	38	38
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	6	6

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	7
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

1.16 - \$10,000 is a loan from one of the directors with interest accrued at 7% per annum.
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	25
4.2 Development	-
4.3 Production	-
4.4 Administration	209
Total *	234

* Since the reporting date, the Company has raised \$416,327 via a private placement and convertible note.

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	6	38
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	6	38

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	-	-	-	-
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:  29 April 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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