



ABN 96 009 217 154

29 July 2016

ASX Limited

Electronic lodgement

June 2016 Quarterly Activity Report

Summary

- On 14th June 2016 Xstate raised gross proceeds of \$3,000,000 via a Private Placement priced at \$0.01 per share.
- The Company announced a Board restructure to reflect an alignment with Xstate's strategic positioning onshore California.
- The Company elected not to proceed with the acquisition of a working interest in the Sunset Assets. Notwithstanding the decision not to proceed with this acquisition, the Company has continued to actively seek, identify and evaluate further asset opportunities that meet Xstate's investment criteria and are capable of being delivered in a timely manner.

Corporate

Xstate is financially well positioned following the private placement, to take advantage of industry conditions. Based on an active new business program coupled with ongoing prudent cost management initiatives and the potential drilling of the high impact Dempsey gas well, Xstate anticipates an exciting second half of 2016.

PRIVATE PLACEMENT

On 14th June the Company successfully raised \$3,000,000 via a private placement to clients of Sanston Securities Australia Pty Ltd ("Sanston"). Sanston advised that the placement was 3 times oversubscribed by Asian investors.

The Company welcomes the support from Sanston who have maintained investor interest and provide ongoing financial advice in relation to Xstate's revised growth strategy.

BOARD RESTRUCTURE

Xstate announced a Board restructure to reflect an alignment with the Company's strategic positioning and proposed future activities in California. The key change was the appointment of Mr Cosimo Damiano as Managing Director. Mr Damiano assumed the role from Chris Hodge who remains a Non-Executive Director of the Company.

The decision to appoint Mr Damiano as Managing Director provides Xstate with extensive commercial and finance experience, as well as asset familiarity on the ground in Xstate's core areas of interest in the USA.

During his short tenure since joining Xstate in November 2015, Mr Damiano has identified a number of potential asset targets that fit the Company's investment strategy. Xstate is conducting ongoing asset due diligence with the assistance on the ground from a number of highly experienced U.S.A based consultants introduced to the Company by Mr Damiano, and with the technical support of the Board.

New Ventures

Xstate has an active business evaluation program targeting producing assets and is advancing discussions in relation to other potential transactions, such discussions at advanced stages.

During the June quarter Xstate elected not to proceed with acquiring a working interest in the Sunset Assets. Whilst conducting its due diligence Xstate identified a number of risks, which Sunset failed to satisfy to Xstate's technical satisfaction. The Company requested an extension to enable Xstate to complete its due diligence and further analyse its findings in relation to the initial investment in the assets, however Sunset declined to provide such an extension.

The Company plans to update investors and the market when these investment opportunities are further progressed in terms of due diligence and potential commitment.

Exploration – Sacramento Basin Joint Venture – Onshore Northern California

Exploration leases have continued to be maintained within the Sacramento Basin during the quarter. Xstate has a working interest (WI) of between 10% and 25% in lease areas, which cover conventional gas prospects.

Dempsey Conventional Gas Prospect (XST 10% WI)

The Dempsey prospect remains the current focus of the Joint Venture's exploration activities, primarily because of the potential for near term production given the prospect's location beneath the joint ventures existing production facilities.

The Dempsey well's proposed depth is 3,200m and is estimated to cost between US\$3.5 and US\$4.0mm to drill (based on a 100% equity with Xstate's share between US\$350,000 and \$400,000).

Alvares Conventional Gas Prospect (XST 25% WI)

The Alvares gas appraisal project provides the opportunity to appraise a large anticline originally drilled in 1982, which encountered extensive gas, shows and flowed gas to surface.

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	June 2016 Quarter	Mar 2016 Quarter
Gross mcf ** (100%)	2,748	22,417
Net XST mcf (after Royalty)	187	1,519

**mcf – Thousand Cubic feet gas

Production was materially down quarter on quarter due to the joint venture deciding to shut in production as a result of low gas prices and pipeline constraint issues. The operator has advised Xstate that production during the September quarter is expected to be higher than the June quarter based on improved domestic gas prices and pipeline issues being rectified.

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

Cosimo Damiano

Managing Director

Xstate Resources Limited

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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.

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")

30 JUNE 2016

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 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	(126)	(154)
(b) development	-	-
(c) production	-	-
(d) administration	(331)	(345)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	3	3
1.5 Interest and other costs of finance paid	(1)	(1)
1.6 Income taxes received / (paid)	-	-
1.7 Other -	-	-
Net Operating Cash Flows	(455)	(497)
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)	(455)	(497)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(455)	(497)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	3,291	3,291
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	140	150
1.17	Repayment of borrowings	(42)	(42)
1.18	Dividends paid	-	-
1.19	Other – capital raising costs	(339)	(339)
	Net financing cash flows	3,050	3,060
	Net increase (decrease) in cash held	2,595	2,563
1.20	Cash at beginning of quarter/year to date	6	38
1.21	Exchange rate adjustments to item 1.20	(1)	-
1.22	Cash at end of quarter	2,600	2,600

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	201
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 - \$15,000 is a loan from one of the directors with interest accrued at 7% per annum;
- \$125,000 relates to funds received under a convertible note, converted to shares on 29 June 2016.
1.17 - \$25,000 is repayment of loans received from director (see 1.16 Mar and Jun-16);
- \$17,000 relates to a premium funding facility repayable in monthly instalments by direct debit
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

+ See chapter 19 for defined terms.

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	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	-
4.2 Development	-
4.3 Production	-
4.4 Administration	70
Total *	70

* 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	2,600	6
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	2,600	6

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 **	621,792,718	238,061,695	N/A	N/A
7.4 Changes during quarter (a) Increases through issues * (b) Decreases through returns of capital, buy-backs	58,265,423 300,000,000 25,465,600	58,265,423 300,000,000 25,465,600	0.5 cents 1 cent 1 cent	0.5 cents 1 cent 1 cent
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				
7.7 Options <i>(description and conversion factor)</i>	2,500,000	-	<i>Exercise price</i> 5 cents	<i>Expiry date</i> 31 December 2016
7.8 Issued during quarter	-	-	-	-
7.9 Exercised during quarter	N/A	N/A	N/A	N/A
7.10 Expired during quarter	19,500,000	-	Various	31 May 2016
7.11 Debentures <i>(totals only)</i>	Nil	N/A		
7.12 Unsecured notes <i>(totals only)</i>	Nil	N/A		

* 25,465,600 fully paid ordinary 1 cent shares were issued in satisfaction of the convertible note for \$125,000 plus interest of \$2,328 (see 1.16).

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 July 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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