



XSTATE RESOURCES LIMITED

ABN 96 009 217 154

INTERIM FINANCIAL REPORT

For the six months ended 30 June 2016

XSTATE RESOURCES LIMITED
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**XSTATE RESOURCES LIMITED
CORPORATE DIRECTORY**

CORPORATE DIRECTORY

Directors

Mr Cosimo Damiano
Mr Chris Hodge
Mr Ian Tchacos
Mr David McArthur

Secretary

Mr David McArthur

Registered and Principal Office

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Auditors

KPMG
Level 8, 235 St George's Terrace
Perth WA 6000

Bankers

ANZ Banking Group Limited
Level 6, 77 St Georges Terrace
Perth WA 6000

Share Registry

Advanced Share Registry Services
110 Stirling Highway
Nedlands WA 6009

ASX Code

Shares: XST

Country of Incorporation and Domicile

Australia

**XSTATE RESOURCES LIMITED
DIRECTORS' REPORT**

For the six months ended 30 June 2016

DIRECTORS' REPORT

The Directors present their report together with the financial statements of Xstate Resources Limited ("the Company") and of the Group, being the Company and its subsidiaries for the six months ended 30 June 2016 and the auditor's report thereon.

1. DIRECTORS

The Directors of the Company at any time during or since the end of the interim period are:

Name	Period of directorship
Executive	
Cosimo Damiano Managing Director	Appointed 27 October 2015
Non-executive	
Chris Hodge <i>Member of the Audit & Risk Management Committee and Member of the Nominations & Remuneration Committee</i>	Appointed 12 November 2013
David McArthur <i>Chair of the Audit & Risk Management Committee and Member of the Nominations & Remuneration Committee</i>	Appointed 3 September 2013
Ian Tchacos <i>Chair of the Nominations & Remuneration Committee and Member of the Audit & Risk Management Committee</i>	Appointed 12 August 2014

Board and management

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, who joined the Board on 27 October 2015, as Managing Director on 31 May 2016. Mr Damiano has extensive commercial and finance experience and asset familiarity on the ground in the Company's core areas of interest in the USA. His appointment to the role of Managing Director will assist the Company to pursue, assess and secure funding for a strategy of adding low operating cost conventional oil and gas production as well as undeveloped reserves to the Company's portfolio.

Mr Damiano's remuneration package as Managing Director is \$100,000 pa inclusive of superannuation.

Mr Chris Hodge, who was previously Managing Director, remains on the Board as a non-executive Director.

XSTATE RESOURCES LIMITED DIRECTORS' REPORT

For the six months ended 30 June 2016

2. OPERATING AND FINANCIAL REVIEW

Overview

Xstate Resources Limited is listed on the Australian Stock Exchange (ASX: XST). The Group is primarily involved in oil and natural gas exploration.

At 30 June 2016, Xstate had 621,792,718 shares on issue and 1,522 shareholders. Its Top 20 holders held 245,370,633 shares or 39.46% of the Company's issued capital.

Significant events during the period

On 13 April 2016 the Company issued 58,265,423 fully paid shares at 0.5 cents per share via a private placement to raise \$291,327 before costs.

On 14 April 2016 the Company entered into a Letter of Intent (LOI) with Sunset Exploration Inc to acquire various interests in three conventional onshore fields in California. The Company decided not to proceed with the acquisition due to risks identified during the due diligence period.

On 14 June 2016 the Company issued 300,000,000 fully paid shares at 1.0 cent per share to raise \$3 million for working capital purposes as approved by shareholders on 31 May 2016.

On 29 June 2016 the Company issued 25,465,600 fully paid shares at 0.5 cents per share for conversion of a \$125,000 Convertible Note and interest payable (\$2,328) as approved by shareholders on 31 May 2016.

Company strategy

Xstate currently has a solid base from which to build a successful E&P company onshore in the USA. Accordingly, the company is focussed on longer term strategic value creation rather than short-term activity.

Specifically, the company's strategy is as follows:

- to secure a suitable farminee(s) and/or to drill or otherwise evaluate its existing high impact multi-TCF appraisal and exploration assets in the Sacramento Basin
- to continue to screen and pursue the acquisition of low risk production assets in multiple proven hydrocarbon basins
- to build a production portfolio with diversity, materiality and follow-up potential focused on low risk conventional production enhancement and development drilling
- to prudently manage cash in order to keep operating and administrative costs to a minimum

Project Overview

New Ventures

Concurrent with the Company's existing Sacramento Basin gas assets, Xstate announced a strategic shift to focus on low risk conventional production opportunities onshore U.S.A targeting underperforming or distressed assets at or near the bottom of the oil price cycle.

The Company remains focused on assets with proven upside, which are in production rather than shut in. This ensures that the facilities are functioning, all required environmental and regulatory approvals are in place and importantly in the case of onshore production acquisitions a viable water disposal solution is in place.

California is one of the world's most prolific oil and gas provinces, with well over 100 years of continuous oil and gas production. The state of California has extensive infrastructure and support facilities with abundant opportunities that Xstate's Board believe the Company is well positioned to acquire and enhance.

**XSTATE RESOURCES LIMITED
DIRECTORS' REPORT**

For the six months ended 30 June 2016

2. OPERATING AND FINANCIAL REVIEW (continued)

Project Overview (continued)

New Ventures (continued)

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.

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 US\$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 6 months to 30 June 2016 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*

**XSTATE RESOURCES LIMITED
DIRECTORS' REPORT**

For the six months ended 30 June 2016

2. OPERATING AND FINANCIAL REVIEW (continued)

Project Overview (continued)

Production – Sacramento Basin (continued)

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.		

Corporate summary

The directors of Xstate Resources believe the Company is well positioned to deliver significant shareholder value on the back of its plans to pursue its revised strategy of adding low operating cost conventional oil and gas production as well as undeveloped reserves to the Company's portfolio.

Financial position

For the six months ended 30 June 2016 the Group incurred a loss of \$503,737 (30 June 2015: loss of \$286,992)

The Company had a net cash inflow of \$2,562,788 (2015: outflow of \$456,704)

On 7 January 2016, Mr McArthur agreed to provide the Company with a \$50,000 loan with an interest rate of 7% pa. The loan plus interest was repaid on 3 May 2016.

Competent person statement

The technical information provided has been compiled by Mr Chris Hodge, non-executive Director of Xstate Resources Limited. Mr Hodge is a qualified petroleum geologist with over 35 years technical, commercial and management experience in exploration for, appraisal and development, and transportation of oil and gas and mineral and energy resources. Mr Hodge has reviewed the results, procedures and data contained in this report and has consented to the inclusion of the above information in the form and context in which it appears.

**XSTATE RESOURCES LIMITED
DIRECTORS' REPORT
For the six months ended 30 June 2016**

3. DIVIDENDS

The Directors recommend that no dividend be provided for the six months ended 30 June 2016.

4. CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Xstate Resources Limited support and have adhered to the principles of good corporate governance. The Group's corporate governance statement is contained within the 31 December 2015 Annual Report and can be viewed on the Company's website.

5. EVENTS SUBSEQUENT TO REPORTING DATE

Other than the matters disclosed in note 5.2 of the notes to the consolidated financial statements, there have been no matters or circumstances that have arisen since the end of the interim period that have significantly affected, or may significantly affect, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial years.

6. LEAD AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in the Directors' Report.

This report is made in accordance with a resolution of the Directors.



DAVID MCARTHUR

Director

Dated at Perth, Western Australia this 1st day of September 2016.



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Xstate Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 June 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.



KPMG



Grant Robinson

Partner

Perth

1 September 2016

XSTATE RESOURCES LIMITED
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Note	30 June 2016 \$	31 December 2015 \$
Assets			
Cash and cash equivalents		2,599,721	38,039
Trade and other receivables		42,058	24,296
Prepayments		70,049	13,098
Interest bearing assets		-	59,919
Total current assets		2,711,828	135,352
Property, plant and equipment		1,379	3,270
Other receivables		-	43,590
Total non-current assets		1,379	46,860
Total assets		2,713,207	182,212
Liabilities			
Trade and other payables		109,248	129,360
Interest bearing liabilities		25,916	45,123
Employee benefits		-	16,252
Site restoration provision	3.1	56,795	-
Total current liabilities		191,959	190,735
Site restoration provision	3.1	-	70,961
Total non-current liabilities		-	70,961
Total liabilities		191,959	261,696
Net assets / (liabilities)		2,521,248	(79,484)
Equity			
Issued capital	4.1	46,827,245	43,737,525
Reserves		63,357	92,158
Retained losses		(44,369,354)	(43,909,167)
Total equity / (deficiency) attributable to equity holders of the company		2,521,248	(79,484)

The accompanying notes are an integral part of these financial statements.

XSTATE RESOURCES LIMITED
FINANCIAL STATEMENTS

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	30 June 2016 \$	30 June 2015 \$
Revenue from operating activities		
Finance income	4,722	232
Other operating income	10,951	35,430
Expenses		
Other operating expenses	(36,926)	(25,892)
Exploration expenditure	(128,178)	(34,435)
Personnel expenses	(129,251)	(91,638)
Administrative expenses	(27,245)	(46,102)
Professional fees	(162,323)	(128,362)
Finance expenses	(13,958)	-
Other expenses	(17,308)	(5,398)
Other (losses) and gains	(3,131)	10,196
Results from operating activities	(502,647)	(285,969)
Loss before income tax	(502,647)	(285,969)
Income tax expense	(1,090)	(1,023)
Loss for the period from continuing operations	(503,737)	(286,992)
Loss for the period	(503,737)	(286,992)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2016 (continued)

	30 June 2016 \$	30 June 2015 \$
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Foreign currency translation difference of foreign operations	87	(3,053)
Total items that may be reclassified subsequently to profit or loss	87	(3,053)
Total comprehensive loss for the period	(503,650)	(290,045)
Loss attributable to:		
Owners of the Company	(503,737)	(286,743)
Non-controlling interests	-	(249)
Loss attributable to owners of the Company	(503,737)	(286,992)
Total comprehensive loss attributable to:		
Owners of the Company	(503,650)	(289,796)
Non-controlling interests	-	(249)
Total comprehensive loss attributable to owners of the Company	(503,650)	(290,045)
Loss per share		
Basic and diluted (cents per share)	(0.17)	(0.16)

The accompanying notes are an integral part of these financial statements.

XSTATE RESOURCES LIMITED
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Attributable to equity holders of the Company					Total \$
	Share capital \$	Translation reserve \$	Options reserve \$	Performance Shares Reserve \$	Accumulated losses ⁽¹⁾ \$	
Balance at 1 January 2016	43,737,525	108	92,050	-	(43,909,167)	(79,484)
Total comprehensive expense for the period						
Loss for the period	-	-	-	-	(503,737)	(503,737)
Other comprehensive income						
Exchange differences arising on translation of foreign operations	-	87	-	-	-	87
Total comprehensive income	-	87	-	-	-	87
Total comprehensive loss for the period	-	87	-	-	(503,737)	(503,650)
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	3,418,655	-	-	-	-	3,418,655
Transfer to accumulated losses on lapse of options	-	-	(43,550)	-	43,550	-
Share-based payment transactions	-	-	-	14,662	-	14,662
Capital raising costs	(328,935)	-	-	-	-	(328,935)
Total contributions by and distributions to owners	3,089,720	-	(43,550)	14,662	43,550	3,104,382
Total changes in ownership interests in subsidiaries	-	-	-	-	-	-
Total transactions with owners	3,089,720	-	(43,550)	14,662	43,550	3,104,382
Balance at 30 June 2016	46,827,245	195	48,500	14,662	(44,369,354)	2,521,248

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Attributable to equity holders of the Company				Total \$
	Share capital \$	Translation reserve \$	Options reserve \$	Accumulated losses \$	
Balance at 1 January 2015	43,571,491	2,811	659,200	(42,948,995)	1,284,507
Total comprehensive expense for the period					
Loss for the period	-	-	-	(286,992)	(286,992)
Other comprehensive income					
Exchange differences arising on translation of foreign operations	-	(3,053)	-	-	(3,053)
Total comprehensive income	-	(3,053)	-	-	(3,053)
Total comprehensive loss for the period	-	(3,053)	-	(286,992)	(290,045)
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Issue of ordinary shares	8,000	-	-	-	8,000
Capital raising costs	(1,614)	-	-	-	(1,614)
Total contributions by and distributions to owners	6,386	-	-	-	6,386
Total changes in ownership interests in subsidiaries	-	-	-	-	-
Total transactions with owners	6,386	-	-	-	6,386
Balance at 30 June 2015	43,577,877	(242)	659,200	(43,235,987)	1,000,848

The accompanying notes are an integral part of these financial statements.

XSTATE RESOURCES LIMITED
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	30 June 2016 \$	30 June 2015 \$
Cash flow from operating activities		
Cash paid to suppliers and employees	(360,761)	(300,711)
Payments for exploration, evaluation and development	(156,404)	(99,107)
Interest received	2,855	249
Income taxes paid	(1,090)	(1,023)
Net cash used in operating activities	(515,400)	(400,592)
Cash flows from investing activities		
Payments to associate	-	(6,074)
Net cash used in investing activities	-	(6,074)
Cash flow from financing activities		
Proceeds from issue of share capital	3,291,237	8,000
Proceeds from issue of convertible notes	125,000	-
Proceeds from related party loans	25,000	-
Proceeds from settlement of loan to JV partner	61,786	-
Payment of capital raising costs	(326,462)	(1,614)
Payment of transaction costs related to loans	(8,750)	-
Repayment of loans from related party	(25,259)	-
Repayment of loans from / payment on behalf of JV partner	(46,566)	(56,424)
Repayment of premium funding facility	(17,798)	-
Net cash from / (used in) financing activities	3,078,188	(50,038)
Net increase in cash and cash equivalents	2,562,788	(456,704)
Cash and cash equivalents at 1 January	38,039	490,147
Effect of exchange rate fluctuations on cash held	(1,106)	(14,838)
Cash and cash equivalents at 30 June	2,599,721	48,281

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

SECTION 1 BASIS OF PREPARATION

In preparing the consolidated financial statements, Xstate Resources Limited has made a number of changes in structure, layout and wording in order to make the financial statements less complex and more relevant for shareholders and other users. We have grouped notes into sections under five key categories:

1. Basis of preparation
2. Results for the year
3. Assets and liabilities relating to exploration and evaluation
4. Equity and funding
5. Other disclosures

Prior year presentation has been reclassified where necessary to conform with current year presentation.

Xstate Resources Limited (“the Company”) is a for-profit, listed company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 30 June 2016 comprises the Company and its subsidiaries (together referred to as “the Group” and individually as “Group Entities”). The Group is primarily involved in oil and natural gas exploration in California, USA.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 31 December 2015, which is available upon request from the Company’s registered office at Level 2, 55 Carrington Street, Nedlands, Western Australia 6009 and on the Company’s website at www.xstate.com.au.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual consolidated financial statements as at the year ended 31 December 2015.

1.1 STATEMENT OF COMPLIANCE

The consolidated interim financial report is a general purpose financial report prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* and with IAS 34 *Interim Financial Reporting*.

The consolidated interim financial report was approved by the Board of Directors on 1 September 2016.

1.2 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Group in the consolidated interim financial report are the same as those applied in its consolidated financial report as at and for the year ended 31 December 2015. The Group has adopted the following Amendments to Australian Accounting Standards with a date of initial application of 1 January 2016.

AASB 2013-9 – Conceptual Framework, Materiality and Financial Instruments – Part C

AASB 2014-3 – Accounting for Acquisitions of Interests in Joint Operations’

AASB 2014-4 – Clarification of Acceptable Methods of Depreciation and Amortisation’

AASB 2014-9 – Equity Method in Separate Financial Statements’

AASB 2015-1 – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle

AASB 2015-2 – Disclosure Initiative: Amendments to AASB 101

AASB 2015-3 – Amendments arising from the Withdrawal of AASB 1031 Materiality’

These changes do not impact the financial statements.

XSTATE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.3 JUDGEMENTS AND ESTIMATES

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2015

1.4 FOREIGN CURRENCIES

The primary economic environment in which the Group operates is Australia. The consolidated financial statements are therefore presented in Australian dollars.

Transactions in foreign currencies are initially recorded in Australian dollars at the exchange rate on that day. Foreign currency monetary assets and liabilities are translated into Australian dollars at the yearend exchange rate. Where there is a movement in the exchange rate between the date of the transaction and the year end, a foreign exchange gain or loss may arise. Any such differences are recognised in the income statement. Non-monetary assets and liabilities measured at historical cost are translated into Australian dollars at the exchange rate on the date of the transaction.

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SECTION 2 RESULTS FOR THE YEAR

This section focuses on the results and performance of the Group, with disclosures including segmental information.

2.1 OPERATING SEGMENTS

Information about reportable segments

The Group currently operates in one operating segment being oil and gas exploration and evaluation.

Reconciliation of reportable segment loss, assets and liabilities and other material items

	30 June 2016 \$	30 June 2015 \$
Loss		
Total loss for reportable segments	(154,153)	(24,897)
Central administration and directors' remuneration	(339,258)	(261,304)
Finance expense	(13,958)	-
Finance income	4,722	232
Consolidated loss before income tax	(502,647)	(285,969)
	30 June 2016 \$	31 December 2015 \$
Assets		
Total assets for reportable segments	50,785	-
Cash and cash equivalents	2,599,721	38,039
Other assets	62,701	144,173
Consolidated total assets	2,713,207	182,212
Liabilities		
Total liabilities for reportable segments	(100,190)	(96,211)
Employee entitlements	-	(16,252)
Other liabilities	(91,769)	(149,233)
Consolidated total liabilities	(191,959)	(261,696)

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2015.

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SECTION 3 ASSETS AND LIABILITIES RELATING TO EXPLORATION AND EVALUATION

This section focuses on the assets and liabilities which form the core of the ongoing business, including those assets and liabilities which support ongoing exploration and evaluation as well as capital and other commitments existing at 30 June 2016.

Key estimates and assumptions in this section

Provisions

Provisions are determined by discounting the expected future cash flow at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance costs.

Site restoration

In accordance with the Group's published environment policy and applicable legal requirements, a provision for site restoration in respect of contaminated and disturbed land, and the related expense, is recognised when the land is contaminated or disturbed. Provisions for the costs of rehabilitation, decommissioning and restoration of the area disturbed during mining activities depends on the legal requirements at the date of decommissioning, the costs and timing of work and the discount rate to be applied.

At each reporting date the site rehabilitation provision is re-measured to reflect any changes in discount rates and timing or amounts of the costs to be incurred. Such changes in the estimated liability are accounted for prospectively from the date of the change and re-added to, or deducted from, the related asset where it is possible that future economic benefits will flow to the entity.

3.1 PROVISIONS

The site restoration provision of \$56,795 (31 December 2015: \$70,961) is in respect of the Group's on-going obligation for the environmental rehabilitation of the Sacramento Basin onshore California area of interest. The timing of rehabilitation expenditure is dependent on the life of the oil field which may vary in the future. The nature of restoration activities includes restoration, reclamation and revegetation of affected areas. The Company continues to work with the Californian authorities with regards to the planning and timing of the rehabilitation.

	30 June 2016	31 December 2015
	\$	\$
Site restoration provision	56,795	70,961
Movement in carrying amounts		
Opening balance	70,961	63,497
Amounts utilised	(13,431)	-
Effects of foreign exchange	(735)	(7,464)
Closing balance	56,795	70,961
Current	56,795	-
Non-current	-	70,961
	56,795	70,961

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SECTION 4 EQUITY AND FUNDING

This section focuses on the share capital, options and debt funding available to the Group at period end.

4.1 CAPITAL AND RESERVES

Share capital

	Ordinary shares			
	Number of shares		Amount in \$	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
Movements in ordinary shares on issue:				
On issue at 1 January	238,061,695	182,129,185	43,737,525	43,571,491
<i>Shares issued and expensed during the period:</i>				
Issue of shares at 0.8 cents each as part Consideration for consulting fees	-	1,000,000		8,000
Private placement of shares at 0.5 cents each	58,265,423	-	291,327	-
Issue of shares at 1.0 cent each to raise working capital	300,000,000	-	3,000,000	-
Issue of shares at 0.5 cents each for conversion of Convertible Note	25,465,600	-	127,328	-
Capital raising costs	-	-	(328,935)	(1,614)
On issue at 30 June	621,792,718	183,129,185	46,827,245	43,577,877

The holders of ordinary shares are entitled to receive dividends as declared from time and are entitled to one vote per share at meetings of the Group. Option holders cannot participate in any new share issues by the Group without exercising their options.

In the event of a winding up of the Group, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

All issued shares are fully paid.

Options

At the date of this report the Company has a total of 2,500,000 unissued ordinary shares under option with an exercise price of 5 cents and an expiry date of 31 December 2016.

These options do not entitle the holder to participate in any share issue of the Company.

During or since the end of the reporting period, no shares were issued as a result of the exercise of options.

During the reporting period 19,500,000 unlisted options expired (30 June 2015: no options expired).

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.1 CAPITAL AND RESERVES (continued)

Performance shares

In line with the Company's long term incentive scheme, performance shares may be granted from time to time to encourage sustained performance in the realisation of strategic outcomes and growth in shareholder value. As reported in the 2015 annual report, Cosimo Damiano's remuneration package would include the issue of 5 million shares if, and when, the following criteria are satisfied:

- a) Source, evaluate, negotiate and assist in securing finance for an asset or assets which are secured by the Company that leads to a 300% increase in the Company's market capitalisation (to exclude any capital appreciation from any deal relating to the existing California assets); Or
- b) Source in excess of \$3 million of new equity capital at terms acceptable to the Board; And
- c) 3 years' service with the Company.

The criteria can be amended at the discretion of the Board should the base market capitalisation prior to a suitable asset being sourced not provide an equitable performance incentive.

Grant date of 14 June 2016 was triggered when criteria (b) was achieved and the ability of the board to exercise the discretion clause lapsed. As a result, the fair value of performance shares will be recognised over the vesting period of 3 years from date of appointment. The key valuation assumptions made at valuation date are summarised below:

Key value assumptions

Grant date	14-Jun-16
Underlying share price at grant date (cents)	1.3
Expiry Date	27-Oct-18
Vesting start date	27-Oct-15
Vesting end date	27-Oct-18

The fair value will be expensed to directors' remuneration over the vesting period.

4.2 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings

	30 June 2016	31 December 2015
	\$	\$
Current		
Premium funding facility	(25,917)	-
Loans to joint venture partner for cash calls	-	59,919
Loans from joint venture partner for cash calls	-	(45,123)
	(25,917)	14,796

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.2 LOANS AND BORROWINGS (continued)

In the prior year, joint venture partners mutually agreed to fund reciprocal cash calls. At the reporting date, these amounts had been offset and repaid.

	30 June 2016	31 December 2015
	\$	\$
Loan to joint venture partner		
Opening balance	59,919	-
Cash calls paid on behalf of joint venture partner	-	56,424
Interest income	1,867	3,495
Less repaid	(61,786)	-
	-	59,919
Loan from joint venture partner		
Opening balance	(45,123)	-
Cash calls paid by joint venture partner	-	(43,601)
Interest charged	(1,443)	(1,522)
Less repaid	46,566	-
	-	(45,123)

Convertible Note

On 6 April 2016 the Company issued 25,000,000 8% convertible notes with a face value of 0.5 cents each, for total proceeds of \$125,000. Interest was payable quarterly in arrears at a rate of 8% per annum based on the face value. The notes were convertible into ordinary shares of the parent entity, at any time at the option of the holder, or repayable within 6 months of the issue date. The conversion rate was 1 ordinary fully paid share for each note held which is based on the market price per share at the date of issue of the notes, but subject to adjustments for reconstructions of equity. The convertible notes were unsecured.

On 29 June 2016 the Company issued 25,465,600 shares at 0.5 cents each for conversion of the \$125,000 convertible note and the interest payable of \$2,328. The transaction was approved by shareholders on 31 May 2016.

Loan received from a director

During the period a director provided the Company with a \$50,000 loan with an interest rate of 7% pa. The loan plus interest was repaid on 3 May 2016.

XSTATE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SECTION 5 OTHER DISCLOSURES

The disclosures in this section focus on share schemes in operation and financial risk management of the Group and other mandatory disclosures, such as related party transactions.

5.1 RELATED PARTIES

As disclosed in the Director's Report, Mr Cosimo Damiano's remuneration package was increased to \$100,000 pa inclusive of superannuation upon his appointment as Managing Director on 31 May 2016. Other than this, there have been no material changes in related party transactions since the end of the period, 31 December 2015.

5.2 SUBSEQUENT EVENTS

On 10 August 2016, the Company entered into an agreement to farm out part of its working interest in the onshore California Area of Mutual Interest held by Xstate ("XST") and its partner Sacgasco ("SGC") Limited (the "AMI") to private company Bombora Natural Energy Pty Ltd ("BNE"). BNE will fund the licensing of additional oil and gas leases over highly prospective prospects in the Northern Sacramento Basin.

BNE will earn a 20% Working Interest ("WI") in up to 9 natural gas prospects that have already been mapped in the AMI by providing staged funding of up to A\$400,000.

Xstate has agreed to sell down a 6% WI, with the remaining 14% interest provided by Sacgasco Limited.

BNE will provide funding in two stages, with funds being utilised by the AMI partners to acquire additional acreage of highly prospective leases containing prospects and leads identified by AMI partner SGC from seismic. XST anticipates making progress announcements after material leases have been secured.

Initial funding of A\$200,00 from BNE will focus on securing 3 Prospects in which Bombora will earn 20%.

BNE will have the option to fund a further A\$200,000 of leasing to earn a 20% interest in an additional 6 prospects (6% from Xstate and 14% from Sacgasco).

Upon Bombora funding A\$400,000 in lease costs, the Working Interests in the AMI will be:

Entity	Before	After
Xstate Resources Limited (ASX: XST)	30%	24%
Sacgasco Limited (ASX: SGC)	70%	56%
Bombora Natural Energy Pty Ltd	0%	20%

Other than as disclosed above, there have been no matters or circumstances that have arisen since the end of the reporting period that have significantly affected, or may significantly affect, the operations of the Company, the results of these operations, or the state of affairs of the Company in future financial years.

**XSTATE RESOURCES LIMITED
DIRECTORS' DECLARATION**

DIRECTORS' DECLARATION

In the opinion of the Directors of Xstate Resources Limited (the "Group"):

- (a) the consolidated financial statements and notes are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the six months ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

Dated at Perth this 1st day of September 2016



DAVID MCARTHUR
Director



Independent auditor's review report to the members of Xstate Resources Limited

Report on the financial report

We have reviewed the accompanying interim financial report of Xstate Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2016, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2016 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Xstate Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Xstate Resources Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature of the KPMG firm, written in black ink.

KPMG

A handwritten signature of Grant Robinson, written in black ink.

Grant Robinson

Partner

Perth

1 September 2016