



XSTATE RESOURCES LIMITED

ABN 96 009 217 154

INTERIM FINANCIAL REPORT

For the six months ended 30 June 2021

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CORPORATE DIRECTORY

Directors

Mr David McArthur

Mr Andrew Childs

Mr Greg Channon

Secretaries

Mr David McArthur

Mr Jordan McArthur

Registered and Principal Office

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Auditors

BDO Audit (WA) Pty Ltd

38 Station Street

Subiaco WA 6008

Bankers

ANZ Banking Group Limited

Level 6, 77 St Georges Terrace

Perth WA 6000

Share Registry

Automic Group

Level 2, 267 St Georges Terrace

Perth WA 6000

ASX Code

Shares: XST

Country of Incorporation and Domicile

Australia

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 2021 and the auditor's review 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	
Andrew Childs <i>Executive Chairman</i>	Appointed 14 July 2021 <i>Previously Non-Executive Director appointed 22 April 2020</i>
Non-Executive	
Greg Channon <i>Chair - Remuneration & Nomination Committee</i> <i>Member - Audit & Risk Management Committee</i>	Appointed 17 August 2020
David McArthur <i>Chair - Audit & Risk Management Committee</i> <i>Member - Remuneration & Nomination Committee</i>	Appointed as Non-Executive 14 July 2021 <i>Previously Managing Director appointed 26 November 2019</i>

2. OPERATING AND FINANCIAL REVIEW

The half year together with the subsequent events referred to in this report has been a transformational period for Xstate. Xstate has transformed into an Exploration & Production (E&P) company with forward cashflows expected to underpin production, development and exploration projects in Canada and California.

The Company now holds a number of assets with significant upside potential.

Highlights

- Commencement of sustainable production from Canadian interests.
- Drilling and Testing of Borba 1-7 well in the northern Sacramento Basin:
 - Commenced 21 February 2021.
 - Drilled to a total depth of 8,827 feet.
 - Tested 13 feet of Kione Sands at 2.1m cubic feet of gas per day on a ¼" choke.
 - Kione formation testing confirms 3,000 mcfpd production potential.
- Acquired a 10% working interest ("WI") in Alberta Plains Oilfield Assets in Alberta, Canada. This has increased to a 35% working interest post period end with an additional 25% interest being acquired in July 2021.
- Acquired a 25% WI in Red Earth Oilfield Assets in Alberta, Canada.
- Improving production and cash flow from Canadian producing assets:
 - 24,967 BOE for A\$1.6m revenue net to Xstate in the second quarter. The Company has a total receivable position of A\$197,518 at period end from Canadian operations.

Borba 1-7 Prospect (XST 33.33%)

The Borba 1-7 well was drilled to a Total Depth of 8,827ft. After determining sub-commercial flows in the lower formations, the Company tested a total of 13 feet of perforations at approximately 3,900 feet (1,200 metres) in the Kione Formations. These perforations are within an interval of 92 feet of reported gas pay. The well flowed 2.1 million cubic feet of gas per day on ¼" choke at 1440 psi Flowing Tubing Pressure and a stabilised Shut-in Tubing Pressure of 1,530 pounds per square inch.

While the calculated flow from the Borba well at 1300 psi tubing pressure (equivalent to 400# of pressure drawdown) is 5,000,000 cubic feet of gas per day (5,000 mcfcpd)*, the company believes a prudent initial flowrate to be 3,000 mcfpd from the Borba 1-7 well. These parameters may be varied following initial production depending on operational outlet pressures and observed reservoir behaviour.

A detailed review of the downhole pressure gauge data from the Borba 1-7 well test has modelled a theoretical Absolute Open Flow ("AOF") potential of 7.8 to 9.2 mcfcpd.

*Note: 1 'mcfcpd' is 1,000 cubic feet of gas per day- approximately 1 sale unit of gas per day.



Borba 1-7 during flow testing

After reviewing multiple routes and connection alternatives, the Joint Venture Operator (Sacgasco Limited) is in the process of obtaining estimates for installing a direct pipeline connection from Borba to the Joint Venture's owned and operated Dempsey area facilities. The optimum route for the pipeline to provide future access for mapped prospects in the area is being finalised.

Subject to final pipeline cost estimates, a final investment decision on this project is expected in the September 2021 quarter.

Integration of recently acquired proprietary and public airborne geophysical data with 2D and 3D seismic data and analyses of well histories over a 1,000 square kilometres study area in the northern Sacramento Basin is proceeding. Results are expected to define extensive 'prospects and leads' focus areas and drillable prospects near the Joint Venture's infrastructure.

Potential for natural sources of helium and hydrogen is being examined.

Sacramento Basin (XST various WI)

The Company continued to maintain leases in the Sacramento Basin during the quarter. Xstate has a working interest (WI) of between 10% and 30% in oil and gas leases which cover natural gas prospects ranging in size from 5-20 Bcf to Tcf recoverable prospective resources of Natural Gas.

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DIRECTORS' REPORT

For the six months ended 30 June 2021

California has an unsatiated average 7 Bcf per day gas market. California imports over 90% of this natural gas from other US States and Canada.

Current reference natural gas prices for Joint Venture gas sales in Sacramento Basin are around US\$5.50 /mcf (AUD\$7.50 /mcf).

This represents a 30% premium to US Benchmark Henry Hub Natural Gas Price.

Production	June 2021 half-year	June 2020 half-year
Gross mcf ** (100%)	61,889	72,199
Net XST mcf (after Royalty)	6,156	7,057

XSTATE RESOURCES LIMITED – SACRAMENTO BASIN TENEMENT LIST NORTHERN CALIFORNIA		
Project name	Category	Working Interest (WI)
Alvares Project	Appraisal	25%
Dempsey 1-15 Well	Exploration & Appraisal	10%
Dempsey Trend	Active leasing 3 large prospects	24%
Rancho Capay Field	Production	10%
Malton field	Production	30%
East Rice East Creek Field	Production	10%
Los Medanos Gas Field	Production	10%
Dutch Slough Field	Production	30%
Denverton Field	Production	30%
Projects are continuously reviewed for their strategic fit and are expected to be modified over time to reflect industry conditions.		

Canadian Oil and Gas producing assets (XST WI 10-25%)

Xstate announced on 28 January 2021 the acquisition of a 10% Working interest (WI) in oil and gas producing assets ("Alberta Plains Assets") in southern Alberta, Canada. The Assets consists of oil and gas fields and associated production equipment, located between Edmonton and the USA border. It was announced on 9 February 2021 that the acquisition had settled.

On 21 March 2021, Xstate settled the purchase of a 15% WI in the Red Earth Asset consisting of 6 oilfields and associated infrastructure, located 450 km north of Edmonton. On 22 March 2021, Xstate announced that it had acquired a further 10% WI in the in the Red Earth assets, taking the Group's total WI to 25%.

On 14 July 2021, Xstate announced that it had acquired a further 25% WI in the Alberta Plains Assets. As these assets settled in February, taking the Group's total WI to 35% post period end.

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DIRECTORS' REPORT

For the six months ended 30 June 2021



Representative Asset Oilfield Production Facilities

Since Xstate acquired the assets, gross production from Red Earth and Alberta Plains has increased by over 50% due to production optimisation projects, including well workovers and restarts. In the same time oil and gas prices have also increased substantially.

The assets are currently producing approximately 1560 BOEPD (453 BOEPD) net to Xstate).

Canadian Oil and Gas Reserves ^{1, 2} (Net to XST)	Red Earth	Alberta Plains	Canada Total
Proved Reserve (Million BOE)	1.08	1.23	2.31
Net XST mcf (after Royalty)	1.67	1.75	3.42
Note 1: Refer to ASX announcements dated 20 November 2020, and 28 January 2021 for calculation methodology and details.			
Note 2: Gas converted to BOE using 6:1 ratio			

Canadian Oil and Gas Production (BOE)	Six-months to 30-Jun21	Six-months to 31-Dec-20
XST Production	27,685	-
XST Production after royalty	24,303	-

Changes in Tenement / Project List Reporting Period:

There have been no significant working interest or tenement changes outside the new tenements in Canada which were acquired during the current reporting period.

Projects are continuously reviewed for their strategic fit and are expected to be modified over time to reflect local and industry conditions. Working interest may vary across individual projects and leases and WI above reflects the WI in the relevant well bores or majority of leased lands.

Leases

USA and Canadian exploration are conducted on leases grant by Mineral Right owners, in Xstate's case primarily governments, private individuals or groups. Leases can vary in size from very small parcels (part of an acre) to large

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For the six months ended 30 June 2021

landholdings (covering a few square miles). Leases generally are for 5 years and rentals are paid annually. There are no firm work commitments associated with the leases. Some leases are 'Held by Production' and royalties are paid to mineral right owners in lieu of rentals. Xstate has not listed all its leases as it is impractical and not meaningful for potential project value assessment in oil and natural gas plays. A detailed listing of leases may also lead to a loss of competitive advantage and consequent reduced value to Xstate shareholders.

Future Strategy

The primary strategic objective for the Company remains securing further producing assets with which to underpin the growth of the Company, whilst also assessing exploration opportunities from existing assets.

Corporate

As at 30 June 2021 the Company held cash and cash equivalents of \$386,101 and had 2,689,587,516 shares on issue across 4,913 shareholders. The top 20 holders held 487,761,411 shares representing 18.14% of the Company's issued capital.

Further information may be found in the Company's reports for the March 2021 and June 2021 quarters, released to the ASX on 30 April 2021 and 30 July 2021, respectively.

Disclaimers

Exploration in the USA is conducted on leases granted 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 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 consequently reduced value to Xstate shareholders.

Competent Persons Statement

This document contains forward looking statements that are subject to risk factors associated with the oil and gas industry. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by many variables which could cause actual results or trends to differ materially. The technical information provided has been reviewed by Mr Greg Channon, a Director of Xstate. He is a qualified geologist with over 35 years technical, commercial and management experience in exploration for, appraisal and development, and transportation of oil and gas. Mr Channon is a member of the American Association of Petroleum Geologists. Mr Channon consents to the inclusion of the information in the form and context in which it appears.

3. DIVIDENDS

The Directors recommend that no dividend be provided for the six months ended 30 June 2021 (2020: Nil).

4. EVENTS SUBSEQUENT TO REPORTING DATE

On 14 July 2021, Mr David McArthur resigned as Managing Director of Xstate and Mr Andrew Childs was appointed as Executive Chairman. Mr McArthur remains on the Board in his capacity as a Non-Executive Director.

Additionally on 14 July 2021, the Group announced that it had acquired a further 25% interest in the Alberta Plains oil and gas fields in Canada, taking the Group's share of working interest in these oil and gas fields to a total 35%.

XSTATE RESOURCES LIMITED

DIRECTORS' REPORT

For the six months ended 30 June 2021

The acquisition had a purchase price of C\$1.25m to be paid as C\$300,000 in cash and C\$950,000 in fully paid ordinary shares of the Group. On 2 August 2021, the Group issued 254,521,500 fully paid ordinary shares in satisfaction of the purchase consideration.

On 27 July 2021, the Group announced that it had raised \$1 million via a placement of fully paid ordinary shares to sophisticated investors at a price of \$0.004 per share, a total of 250 million shares were issued on 2 August 2021.

The impact of the Coronavirus (COVID-19) pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus measures that may be provided.

Other than as disclosed above, 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 periods.

5. 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.



ANDREW CHILDS

Executive Chairman

Dated at Perth, Western Australia this 10th day of September 2021

DECLARATION OF INDEPENDENCE BY ASHLEIGH WOODLEY TO THE DIRECTORS OF XSTATE RESOURCES LIMITED

As lead auditor for the review of Xstate Resources Limited for the half-year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Xstate Resources Limited and the entities it controlled during the period.



Ashleigh Woodley
Director

BDO Audit (WA) Pty Ltd
Perth, 10 September 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021

	Note	30 June 2021 \$	31 December 2020 \$
Assets			
Cash and cash equivalents		386,101	814,876
Trade and other receivables		209,536	6,195
Prepayments		34,114	199,781
Total current assets		629,751	1,020,852
Deposits		322,335	72,176
Oil and gas assets	4.1	18,009,705	-
Total non- current assets		18,332,040	72,176
Total assets		18,961,791	1,093,028
Liabilities			
Trade and other payables	5.1	(144,448)	(163,224)
Borrowings	5.2	(35,437)	(66,709)
Employee benefits	5.3	-	(105,937)
Site restoration provision	4.2	(447,439)	-
Total current liabilities		(627,324)	(335,870)
Site restoration provision	4.2	(15,277,645)	(52,858)
Total non- current liabilities		(15,277,645)	(52,858)
Total liabilities		(15,904,969)	(388,728)
Net assets		3,056,822	704,300
Equity			
Share capital	6.1	55,874,523	50,427,398
Reserves		565,534	624,060
Accumulated losses		(53,383,235)	(50,347,158)
Total equity attributable to owners of the company		3,056,822	704,300

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 2021

		30 June 2021	30 June 2020
	Note	\$	\$
Revenue from operating activities			
Production income	3.2	1,922,781	-
Other income		41,864	28,889
Expenses			
Other operating expenses		(2,059,762)	(106,366)
Exploration expenditure		(1,967,145)	(23,582)
Business development expenditure		-	(408)
Personnel expenses		(690,869)	(86,922)
General and administrative expenses		(82,999)	(25,375)
Professional fees		(92,746)	(55,944)
Finance costs		(7,860)	-
Depreciation and amortisation		(220,540)	(209)
Other gains / (losses)		30,998	(1,863)
Loss before income tax		(3,126,278)	(271,780)
Income tax expense		(4,370)	(3,921)
Loss for the period		(3,130,648)	(275,701)
Other Comprehensive Income			
Exchange differences on translation of foreign operations		57,720	8,267
Total Comprehensive loss for the half-year		(3,072,928)	(267,434)
Loss attributable to owners of the Company		(3,072,928)	(267,434)
Loss per share (cents per share)			
Basic and diluted (cents per share)		(0.13)	(0.02)

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 2021

	Note	Attributable to equity holders of the Company					Total \$
		Share capital \$	Translation reserve \$	Share-based payments reserve \$	Convertible note reserve \$	Accumulated losses \$	
Balance at 1 January 2021		50,427,398	34,961	-	589,099	(50,347,158)	704,300
Total comprehensive loss for the period							
Loss for the period		-	-	-	-	(3,130,648)	(3,130,648)
Other comprehensive income							
Foreign exchange translation difference on foreign		-	57,720	-	-	-	57,720
Total other comprehensive income for the period		-	57,720	-	-	-	57,720
Total comprehensive profit / (loss) for the period		-	57,720	-	-	(3,130,648)	(3,072,928)
Transactions with owners, recorded directly in equity:							
Contributions by and distributions to owners							
Issue of ordinary shares		4,931,001	-	-	-	-	4,931,001
Unissued shares	6.1	105,363	-	-	-	-	105,363
Share-based payment transactions		-	-	567,423	-	-	567,423
Conversion of options		75,000	-	(94,571)	-	94,571	75,000
Interest on convertible notes		-	-	-	4,927	-	4,927
Conversion of convertible notes		594,026	-	-	(594,026)	-	-
Capital raising costs		(258,265)	-	-	-	-	(258,265)
Total contributions by and distributions to owners		5,447,125	-	472,853	(589,099)	94,571	5,425,449
Balance at 30 June 2021		55,874,523	92,681	472,853	-	(53,383,235)	3,056,822

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 2020

	Attributable to equity holders of the Company				
	Share capital \$	Translation reserve \$	Options reserve \$	Accumulated losses \$	Total \$
Balance at 1 January 2020	49,560,932	28,603	457,416	(50,152,140)	(105,189)
Total comprehensive loss for the period					
Loss for the period	-	-	-	(275,701)	(275,701)
Other comprehensive income					
Foreign exchange translation difference on foreign operations	-	8,267	-	-	8,267
Total other comprehensive income for the period	-	8,267	-	-	8,267
Total comprehensive profit / (loss) for the period	-	8,267	-	(275,701)	(267,434)
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Issue of ordinary shares	-	-	-	-	-
Share-based payment transactions	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-
Balance at 30 June 2020	49,560,932	36,870	457,416	(50,427,841)	(372,623)

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

XSTATE RESOURCES LIMITED
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

	30 June 2021 \$	30 June 2020 \$
Cash flow from operating activities		
Payments to suppliers and employees	(543,572)	(309,583)
Payments for exploration, evaluation and development	(1,873,394)	(164,050)
Interest paid	(2,933)	(605)
Government grant	-	10,000
Income taxes paid	(4,370)	(3,922)
Net cash used in operating activities	(2,424,269)	(468,160)
Cash flows from investing activities		
Payments for acquisition of production interests	(1,774,707)	-
Net cash used in investing activities	(1,774,707)	-
Cash flow from financing activities		
Proceeds from issue of share capital	4,000,001	-
Proceeds from exercise of options	75,000	-
Payment of capital raising costs	(258,265)	(12,069)
Repayment of borrowings	(79,683)	(13,293)
Net cash used in financing activities	3,737,053	(25,362)
Net decrease in cash and cash equivalents	(461,923)	(493,552)
Cash and cash equivalents at 1 January	814,876	540,495
Effect of exchange rate fluctuations on cash held	33,148	8,678
Cash and cash equivalents at 30 June	386,101	55,651

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

SECTION 1 BASIS OF PREPARATION

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 2021 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, and at half-year end was in process of commencing participation in oil and natural gas production in Alberta, Canada.

The interim financial report is intended to provide users with an update on the latest annual financial statements of the Group. As such it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. 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 2020, which is available upon request from the Company’s registered office at Level 1, 31 Cliff Street, Fremantle, Western Australia 6160 and on the Company’s website at www.xstateresources.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 2020.

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 10th September 2021.

SECTION 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 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 2020. The Group has adopted the following Amendments to Australian Accounting Standards with a date of initial application of 1 January 2021.

Adoption of new and revised standards:

Standards and interpretations applicable to 30 June 2021

For the half-year ended 30 June 2021, the Directors have reviewed all new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the half-year reporting periods beginning on or after 1 January 2021.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Group and therefore no material change is necessary to Group accounting policies.

Standards and Interpretations in issue not yet adopted

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted that are relevant to the Group and effective for the half-year reporting periods beginning on or after 1 January 2022.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations in issue not yet adopted on the Group and therefore no material change is necessary to Group accounting policies.

2.2 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 expenses. 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 2020, with the exception of the following additional judgements and estimates.

- | | |
|---|----------------|
| - Depletion and depreciation – oil and gas assets | Refer note 4.1 |
| - Reserve estimates | Refer note 4.1 |
| - Provision for rehabilitation and restoration | Refer note 4.2 |

Coronavirus (COVID-19) pandemic

The impact of the Coronavirus (COVID-19) pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus measures that may be provided.

2.3 FOREIGN CURRENCIES

The financial report is presented in Australian dollars, which is Xstate Resources Limited's functional and presentation currency.

2.3 FOREIGN CURRENCIES (continued)

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing on the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency translation reserve in equity.

The foreign currency translation reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

2.4 GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the normal course of business.

For the period ended 30 June 2021, the Group recorded a loss of \$3,130,648 and had net cash outflows of \$461,922. As at 30 June 2021, the Group had net assets of \$3,056,822, with total cash on hand of \$386,101.

These conditions indicate a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The ability of the Group to continue as a going concern is dependent on a combination ongoing positive cash flows generated from the Groups interest in Canadian producing assets and securing additional funding through debt or equity issuances if required to continue to fund its exploration activities.

Post period end, as detailed in note 7.2, the Company successfully raised \$1 million via the issue of fully paid ordinary shares.

Since period end, the Company has received cash flows from the Canadian producing assets and the Directors are confident of the Group's ability to continue as a going concern on the basis of it's producing interest's capacity to produce positive cash flows and access to capital markets should they be need to augment the Company's planned operations.

Should the Canadian producing assets which the Group has an interest in be unsuccessful in providing positive cash flows and the Group be unable to raise additional funds via the issuance of capital, there is a material uncertainty that exists that may cast significant doubt as to whether the Group will be able to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets and liabilities that might be necessary if the Group does not continue as a going concern.

SECTION 3 RESULTS FOR PERIOD

This section focuses on the results and performance of the Group, with disclosures including components of the operating loss.

3.1 OPERATING SEGMENTS

Identification of reportable operating segments

The Group is organised into two segments based on the operations each performs, being:

- Oil & gas exploration activities; and
- Oil & gas production activities.

These operating segments are based on the internal reports that are reviewed and utilised by the Board of Directors (Who are identified as the Chief Operating Decision Makers (CODM)) in assessing performance of the Group and in determining the allocation of resources. There is no aggregation of operating segments. Any amounts that fall outside of these segments are categorised as “Corporate”.

There has been a change in the basis of segmentation since the 31 December 2020 accounts with the addition of the Oil & gas production activity segment on the acquisition of working interests in Canadian producing assets during the period to 30 June 2021.

Segment information provided to the chief operating decision maker

	Oil & gas exploration	Oil & gas production	Corporate	Total
30-Jun-2021				
Key segment P&L information				
Revenue from external customers	-	1,922,781	-	1,922,781
Profit / (loss) before tax	(2,087,578)	(194,250)	(844,450)	(3,126,278)
Exploration expenditure	(1,967,145)	-	-	(1,967,145)
Depreciation	-	(51,092)	-	(51,092)
Amortisation	-	(169,448)	-	(169,448)
Segment balance sheet information				
Current Assets	1,700	197,518	430,533	629,751
Non-current assets	-	18,332,040	-	18,332,040
Total Assets	1,700	18,529,558	430,533	18,961,791
Current liabilities	(71,167)	(447,439)	(108,718)	(627,324)
Non-current liabilities	(54,265)	(15,223,380)	-	(15,277,645)
Total liabilities	(125,432)	(15,670,819)	(108,718)	(15,904,969)
30-Jun-2020				
Key segment P&L information				
Revenue from external customers	-	-	-	-
Profit / (loss) before tax	(101,059)	-	(174,642)	(275,701)
Exploration expenditure	(129,948)	-	-	(129,948)
Depreciation	-	-	(209)	(209)
Amortisation	-	-	-	-

3.1 OPERATING SEGMENTS (continued)

	Oil & gas exploration	Oil & gas production	Corporate	Total
31-Dec-2020				
Segment balance sheet information				
Current Assets	193,981	-	826,871	1,020,852
Non-current assets	-	-	72,176	72,176
Total Assets	193,981	-	899,047	1,093,028
Current liabilities	(39,616)	-	(296,254)	(335,870)
Non-current liabilities	(52,858)	-	-	(52,858)
Total liabilities	(92,474)	-	(296,254)	(388,728)

3.2 PRODUCTION INCOME

Accounting Policy

Revenue recognition

Revenue from sales of oil and natural gas is recognised at the amount that reflects the consideration to which the Group is expected to be entitled. Prices are based on market prices and is recognised based on the actual volumes sold to customers. Revenue is recognised at the point in time when control of the product is transferred to the customer, which is generally when the product is physically transferred at the delivery point agreed upon in the contract and legal title to the product passes to the customer (often via connected pipelines). Where the Group is not the operator of a well, under the terms of the relevant production sharing arrangements, the Group is entitled to its participating share in the crude oil and natural gas, based on the Group's working interest.

Revenue for the period ended 30 June 2021 relates to contracts executed for the sale of crude oil and natural gas. All performance obligations have been met within the period. There is no variable consideration requiring estimation for the period ended 30 June 2021.

The Group did not have contracts that were executed in a prior period, whereby the performance obligations were partially met at the beginning of the period.

The Group's revenue is currently wholly derived from Canadian operations and is disaggregated as such in the Group's segment note disclosure at note 3.1. The Group's revenue disaggregated by pattern of revenue recognition is as follows.

	30 June 2021 \$	30 June 2020 \$
Crude oil sales		
Goods transferred at a point in time	1,901,253	-
Gas sales		
Goods transferred at a point in time	21,528	-
	1,922,781	-

SECTION 4 OPERATIONAL ASSETS AND LIABILITIES

This section focuses on the assets and liabilities which form the core of the ongoing business, being exploration and evaluation of oil and gas as well as production of oil and gas.

4.1 OIL AND GAS ASSETS

On 20 November 2020, the Company entered into a binding agreement with Blue Sky Resources Limited (**Blue Sky**) to acquire a 15% Working Interest (WI) in the Red Earth producing oil fields in Alberta, Canada. The acquisition of the WI was for consideration of C\$300,000 and the issuance of 58.3m fully paid ordinary shares. The Red Earth asset acquisition settled on 21 March 2021. On 22 March 2021, the Company entered into a binding agreement to acquire a further 10% WI in the Red Earth assets for consideration of C\$700,000 and the issuance of 10.14m Xstate fully paid ordinary shares.

On 28 January 2021, the Company entered into a binding agreement with Blue Sky to acquire a 10% WI in the Alberta Plains producing oil fields in Southern Alberta, Canada. The acquisition of the WI was for consideration of C\$250,000 and 10.9m fully paid ordinary shares. The Alberta Plains asset acquisition settled on 9 February 2021.

Accounting Policy and Critical Accounting Estimates Information

Producing assets

All costs directly associated with the development and production of oil and natural gas interests are capitalised on an area-by-area basis as oil and natural gas interests if they extend or enhance the recoverable reserves of the underlying assets. Items of property, plant and equipment, which include oil and natural gas production assets, are measured at cost less accumulated depreciation/amortisation and any accumulated impairment losses. Development costs include expenditure for areas where technical feasibility and commercial viability has been determined. The capitalised value of producing assets includes acquisition costs, reactivation and development costs and initial estimates of decommissioning liabilities associated with their operation.

Depreciation and Amortisation

Depletion charges are calculated to amortise the capitalised value of carried forward production assets over the life of the estimated Proved plus Probable ("2P") reserves for a hydrocarbon reserve, together with future costs necessary to develop the respective hydrocarbon reserve. The value of oil and natural gas interests is depleted using the units of production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil and natural gas with geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially viable. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proved component of proved and probable reserves are 90 percent and 10 percent, respectively.

Reserve estimates

Estimation of reported recoverable quantities of 2P reserves include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. These factors used to estimate reserves may change from period to period.

Reserve estimates are used to calculate amortisation of producing assets.

4.1 OIL AND GAS ASSETS (continued)

	Sub-surface assets	Surface assets	Total
	\$	\$	\$
Balance as at 1 January 2020	-	-	-
Additions	-	-	-
Depreciation and amortisation	-	-	-
Balance as at 31 December 2020	-	-	-
Balance as at 1 January 2021	-	-	-
Additions	2,391,441	172,683	2,564,124
Capitalisation of asset retirement obligation	11,621,380	4,049,439	15,670,819
Depletion of assets	(169,448)	(51,092)	(220,540)
Foreign exchange movements	(2,863)	(1,835)	(4,698)
Balance as at 30 June 2021	13,840,510	4,169,195	18,009,705

4.2 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.

Critical accounting estimate – future restoration costs and decommissioning liabilities

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 and extraction activities depend on the legal requirements at the date of decommissioning, the costs and timing of work and the discount rate to be applied.

Decommissioning liabilities are measured at the present value of management's best estimate of the risk adjusted cash flows required to settle the present obligation at period end. The future cash flow estimates are adjusted to reflect the risks specific to the liability. Subsequent to the initial measurement, the liabilities recognised are adjusted at the end of each period to reflect the passage of time using a risk-free interest rate and changes in the estimated future cash flows underlying in the liability. The increase in the provision due to the passage of time is recognised as a finance cost in the P&L, whereas increases or decreases attributable to changes in the estimated future cash flows or timing are recognised as changes in the decommissioning liability value and related oil & gas asset value for production assets, and against expenses for exploration assets. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the liability to the extent the liability was extinguished. Any differences between the recorded liability and actual costs incurred are recorded as a gain or loss in the P&L.

4.2 PROVISIONS (continued)

Site restoration provisions have been disaggregated based upon geography due to differing jurisdictional requirements.

California, United States

The joint-venture operator, Sacgasco Limited (**ASX:SGC**), has lodged a blanket bond to the total of USD\$200,000 with the Californian Department of Conservation and Division of Oil, Gas and Geothermal Resources (DoGGR) in respect of the well licenses held in the Sacramento Basin onshore California area of interest. The blanket bond is for coverage of up to 50 idle wells, a number that is significantly higher than the number of idle wells held by the joint-venture at current.

Xstate has taken up a provision balance in respect of its working interest percentage for each of the wells held by the JV, representing the maximum exposure to the Company for restoration and rehabilitation in respect of the well interests held.

Alberta, Canada (Red Earth and Alberta Plains assets)

The activities of the joint operation in Alberta, Canada (comprising the Group's working interest in the Red Earth assets and the Alberta Plains assets) give rise to dismantling, decommissioning and site disturbance remediation activities. Provisions are made for the estimated cost of asset retirement obligations associated with site restoration and are capitalised to Oil and Gas Assets, as outlined in Note 4.1, and amortised over the useful life of the assets.

	30 June 2021 \$	31 December 2020 \$
Current		
Canadian asset retirement obligation	(447,439)	-
Non-current		
Canadian asset retirement obligation	(15,223,380)	-
Californian site restoration provision	(54,265)	(52,858)
	(15,277,645)	(52,858)
Movement in carrying amounts		
Opening balance	(52,858)	(58,083)
Additional provisions recognised – Canada	(15,670,819)	-
Effects of foreign exchange	(1,407)	5,225
Reduction in provision required	-	-
Closing balance	(15,725,084)	(52,858)

The Group's asset retirement obligation results from its working interests in petroleum and natural gas assets, including well sites and gathering systems. The Operator of the producing assets (Blue Sky Resources Limited [**BSR**]) estimates the undiscounted value of its total asset retirement obligations at CAD \$14,278,095 net to Xstate. The asset retirement obligation is calculated using a discount factor being the risk-free rate related to the liability and has been based on long-term bond rates in Canada. At period end this has been determined as 1.55% based on 20-year bond rates. An inflation rate of 2% per annum has been used in the calculation of the present value of the asset retirement obligation. The timing of decommissioning expenditures has been estimated at FY 2046.

SECTION 5 WORKING CAPITAL DISCLOSURES

This section focuses on the cash funding available to the Group and working capital position at period end.

5.1 TRADE AND OTHER PAYABLES

Trade payables represent liabilities for goods and services provided to the Group prior to the end of the period and which are unpaid. Due to their short-term nature, they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid at the end of the month following the date of recognition.

	30 June 2020 \$	31 December 2020 \$
Current		
Trade payables	(108,929)	(147,224)
Other payables and accrued expenses	(35,519)	(16,000)
Closing balance	(144,448)	(163,224)

5.2 BORROWINGS

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including interest on short-term and long-term borrowings.

	30 June 2021 \$	31 December 2020 \$
Premium funding facility ¹	(35,437)	-
Unsecured other borrowings	-	(66,709)
Closing balance	(35,437)	-

¹ Premium funding facility is a non-cash financing facility the Company has utilised, whereby the costs of the Company's insurance premiums have been funded by an external party and are repaid over a 10-month period.

5.2 BORROWINGS (continued)

Reconciliation of movement in borrowings

	Unsecured loans \$	Premium funding \$
Balance at 1 January 2021	(66,709)	-
Loans & borrowings received	-	-
Premium funding facility entered into	-	(49,439)
Interest costs charged	(369)	(844)
Less amounts repaid ¹	67,078	14,846
Balance at 30 June 2021	-	(35,437)

¹ Loan repayments noted are inclusive of interest

5.3 EMPLOYEE BENEFITS

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of the future benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

The table below sets out employee benefits payable as at reporting date:

	30 June 2021 \$	31 December 2020 \$
Director salary/fee accrual	-	95,320
Post-employment benefits	-	10,617
	-	105,937

SECTION 6 EQUITY AND FUNDING

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

6.1 CAPITAL AND RESERVES

Share capital

	Ordinary shares			
	Number of shares		Amount in \$	
	30 June 2021	30 June 2020	30 June 2021	30 June 2020
Movements in ordinary shares on issue:				
On issue at 1 January	1,811,240,898	1,425,490,898	50,427,398	49,560,932
<i>Shares issued and expensed during the period:</i>				
Private placement of shares at \$0.008 to raise working capital	500,000,125	-	4,000,001	-
Placement at \$0.0025 in partial settlement of debts owed to Director	8,000,000	-	56,000	-
Conversion of convertible notes	297,013,160	-	594,026	-
Conversion of options	15,000,000	-	75,000	-
Issue of shares for working interest acquisitions	58,333,333	-	875,000	-
Unissued shares for working interest acquisitions*	-*	-	105,363	-
Capital raising costs	-	-	(258,265)	-
On issue at 30 June	2,689,587,516	1,425,490,898	55,874,523	49,560,932

* Shares for acquisition of additional 10% working interest in Red Earth production assets and initial 10% of Alberta Plains production assets approved by shareholders at AGM held 28 May 2021 and issued to Blue Sky Resources (BSR) on 2 August 2021. The value denoted in the table above is derived from the number of shares agreed to be issued to BSR

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.

6.1 CAPITAL AND RESERVES (continued)

Options

During the period, 90,000,000 options were issued to Directors. At the date of this report the Company has a total of 75,000,000 unissued ordinary shares under option with an exercise price of 0.5 cents and expiry date of 31st December 2022. The fair value of the options has been estimated using the Black and Scholes option pricing model. The key valuation assumptions made at valuation date are summarised below:

	Number of options	Exercise price	Grant date	Expiry date	Life of options	Volatility	Risk free rate	Value per option
Directors	90,000,000	0.5 cents	22-Jan-21	31-Dec-22	1.94	224%	0.11%	\$0.0063

A total expense of \$567,423 was recognised in Personnel Expenses the period in respect of the options issued to Directors. 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, no options expired (30 June 2020: nil).

SECTION 7 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.

7.1 SUBSIDIARIES

Details of the Group's material subsidiaries at the end of the reporting period are as follows:

Name of entity	Principal Activity	Place of incorporation and operation	Financial year end	Proportion of ownership interest	
				2021 %	2020 %
CalX SELA LLC	Oil and gas exploration	California, USA	31 December	100	100
Xstate (USA) Corp	Oil and gas exploration	California, USA	31 December	100	100
XGas LLC	Oil and gas exploration	California, USA	31 December	100	100
Xstate Texas LLC	Oil and gas exploration	Texas, USA	31 December	100	100
Xstate Energy AB	Oil and gas production	Alberta, Canada	31 December	100	-

7.2 SUBSEQUENT EVENTS

On 14 July 2021, Mr David McArthur resigned as Managing Director of Xstate and Mr Andrew Childs was appointed as Executive Chairman. Mr McArthur remains on the Board in his capacity as a Non-Executive Director.

Additionally on 14 July 2021, the Group announced that it had acquired a further 25% interest in the Alberta Plains oil and gas fields in Canada, taking the Group's share of working interest in these oil and gas fields to a total 35%. The acquisition had a purchase price of C\$1.25m to be paid as C\$300,000 in cash and C\$950,000 in fully paid ordinary shares of the Group. On 2 August 2021, the Group issued 254,521,500 fully paid ordinary shares in satisfaction of the purchase consideration.

On 27 July 2021, the Group announced that it had raised \$1 million via a placement of fully paid ordinary shares to sophisticated investors at a price of \$0.004 per share, a total of 250 million shares were issued on 2 August 2021.

The impact of the Coronavirus (COVID-19) pandemic is on-going and it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus measures that may be provided.

Other than as disclosed above, 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.

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 2021 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 other mandatory professional reporting requirements; 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 10th day of September 2021

A handwritten signature in dark ink, appearing to read 'A Childs', with a long horizontal flourish extending to the right.

ANDREW CHILDS
Executive Chairman

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Xstate Resources Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Xstate Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be the same terms if given to the directors as at the time of this auditor's review report.

Material uncertainty relating to going concern

We draw attention to Note 2.2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Responsibility of the directors for the financial report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year 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 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

A review of a half-year 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.

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Ashleigh Woodley', is written over a faint, larger 'BDO' logo.

Ashleigh Woodley

Director

Perth, 10 September 2021