



XSTATE RESOURCES LIMITED

ABN 96 009 217 154

INTERIM FINANCIAL REPORT

For the six months ended 30 June 2022

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CORPORATE DIRECTORY

Directors

Mr David McArthur (*resigned 6 June 2022*)

Mr Andrew Childs

Mr Greg Channon

Mr Andrew Bald (*appointed 6 June 2022*)

Secretaries

Mr David McArthur

Mr Jordan McArthur

Registered and Principal Office

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Postal Address

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Auditors

BDO Audit (WA) Pty Ltd

Level 9, Mia Yellagonga Tower 2, 5 Spring Street

Perth WA 6000

Bankers

ANZ Banking Group Limited

Level 6, 77 St Georges Terrace

Perth WA 6000

Share Registry

Automic Group

Level 5, 191 St Georges Terrace

Perth WA 6000

Telephone: 1300 288 664

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 2022 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 – Audit & Risk Committee</i> <i>Member – Remuneration & Nomination Committee</i>	Appointed 17 August 2020
Andrew Bald <i>Chair - Remuneration & Nomination Committee</i> <i>Member - Audit & Risk Management Committee</i>	Appointed 6 June 2022
David McArthur <i>Chair - Audit & Risk Management Committee</i> <i>Member – Remuneration & Nomination Committee</i>	Appointed as Non-Executive 14 July 2021 <i>Resigned 6 June 2022</i>

2. OPERATING AND FINANCIAL REVIEW

The half year from January to June 2022 represented a period of sustained oil and gas production, together with oil exploration success in Austria for the Company.

Highlights

- Continued production in Canada totaling 82,566 barrels of oil equivalent (BOE) net to Xstate, representing an average rate of 452 BOEPD (net of Royalty) to Xstate for the half year;
- 3 successful development wells were drilled on the Alberta Plains leases;
- Net Revenue from Operating activities (predominantly Canadian) exceeded A\$10 million; and
- Anshof-3 oil discovery in Austria tested at maximum rates of 132 barrels of oil per day (26 BOPD net to Xstate);

Canadian producing assets (XST WI 25-35%)

The first half of the year saw strong, stable production and increased revenue. Production rates were generally stable across the half, averaging 452 BOEPD (net of Royalty to Xstate). Net total production for half year was 82,566 boe, the highest in the history of the Company. Revenue from the production exceeded A\$10 million, representing a realized oil price of more than A\$120/bbl. Operating costs were noted to be high for the first

half of the year, and this related to some costs and commitments associated with the acquisition of the Canadian assets extending into the half. The Company expects to see operating costs fall in the second half of the year.



The Group has recorded a net payable position on Canadian production operations as at 30 June 2022 as a result of the operator performing several necessary operations for the continued performance of the assets, namely:

- Undertaking a 3 well drilling program in Alberta Plains aimed at increasing Gross oil production by 200 BOPD. These wells were brought into production post period end and are currently contributing to overall operations;
- Undertaking workovers on previously inactive wells across both Red Earth and Alberta Plains assets in an effort to take advantage of increased oil prices – this has been a considerable part of the process of re-activation of both assets since their acquisitions in 2021; and
- Recommencement of historical abandonment work scheduled that was postponed by the previous operator as a result of the Covid-19 pandemic.

As a result of these operations, the Group has recorded a loss for the 6 months to 30 June in the Canadian Oil & Gas Production segment, however, the Directors are confident in the second half of the year proving to be a profitable period for both asset fields as a result of works performed to date.

XSTATE RESOURCES LIMITED**DIRECTORS' REPORT****For the six months ended 30 June 2022**

Undertaking these operations in a high oil price environment is considered a prudent strategy by the Operator in an effort to improve the performance of the producing oil fields to improve profitabilities and also to protect against lower prices, should they be seen in the near-term.

The Operator, Blue Sky Resources, has informed the Joint Venture that it intends to embark on a production reactivation program for over 50 inactive wells, which is estimated to deliver 600 BOPD gross, which is 150 BOPD net to Xstate. This program is anticipated to begin in the 4th quarter of calendar 2022 and extend into 2023.

The current payable position on Canadian operations is anticipated to be remediated via partial reduction of operational cash distributions received from Blue Sky Resources in the coming six to twelve month period.

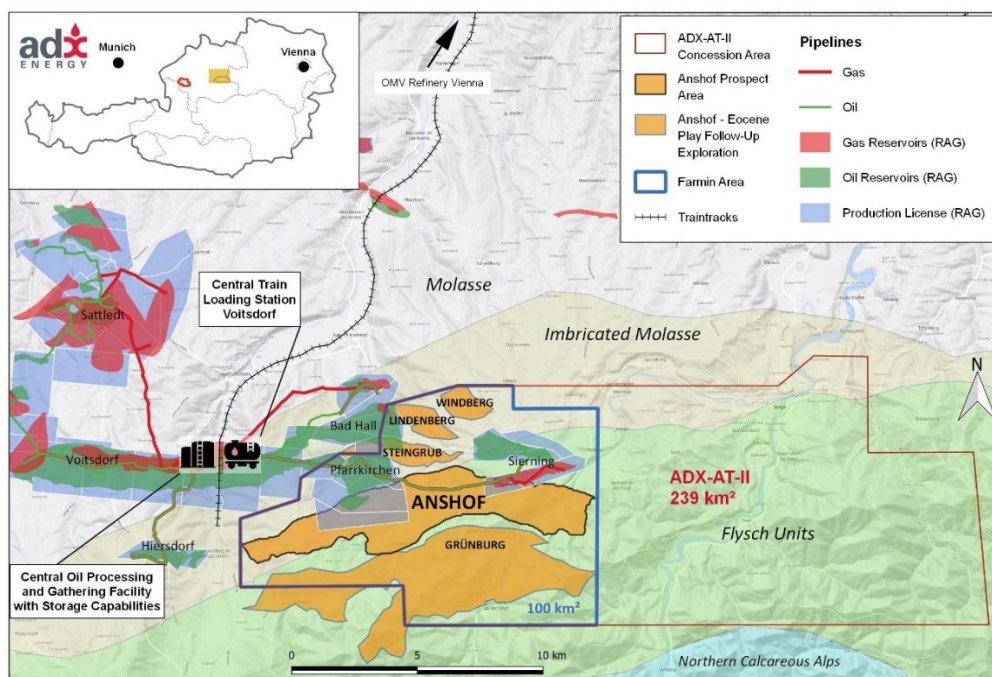
As of the date of this report, the assets are producing approximately 1,777 BOEPD (536 BOEPD net to Xstate).

Canadian Oil and Gas Reserves ^{1, 2} (Net to XST)	Red Earth	Alberta Plains	Canada Total
Proved and Probable Reserve (Million BOE)	1.654	1.106	2.760
Net XST mcf (after Royalty)	1.506	1.015	2.521
Note 1: Refer to 31 December 2021 Annual Report			
Note 2: Gas converted to BOE using 6:1 ratio			

Canadian Oil and Gas Production (BOE)	Six-months to 30-Jun-22	Six-months to 30-Jun-21
XST Production	94,741	27,685
XST Production after royalty	82,566	24,303

Anshof-3 Austrian Oil Discovery (20% WI)

During the half, the Anshof-3 exploration well intersected a gas and oil column with the oil column tested at a maximum rate of 132 BOPD (36 BOPD net to XST). The final rate was a significant improvement on the rates tested immediately after the well was drilled. Pressure data recorded during the test indicates better than expected reservoir flow performance. There were no flow barriers indicated from the test data, which is a positive indication for oil recovery from long term Anshof- 3 well production. The flow performance at Anshof-3 well also has positive implications for future Anshof wells drilled down dip from the crest of structure where the Eocene reservoirs are expected to thicken considerably. At the conclusion of testing operations, the Anshof-3 well was acidized to further enhance productivity and a production string was installed in the well as well as a down hole pump in preparation for long term production.



Anshof Prospect Map

The work to commence commercial production from Anshof-3 has now commenced. The Operator (ADX) is assessing plans to install an early production testing and processing facility so oil can be trucked to a nearby oil terminal for sale. Interim gross production of up to 37,000 barrels of oil (100 BOPD for a period of one year) is allowed under Austrian legislation prior to finalising a production licence for the entire discovery area.

Xstate has earned a 20% working interest in the Anshof Field Area.

California Exploration and Production (Various WIs)

The Company continued to maintain leases and produce gas in the Sacramento Basin during the half year period. Xstate has working interests of between 10% and 33% in these oil and gas leases. In addition to our existing Sacramento Basin production, the Company is investigating workover and exploration opportunities to take advantage of the current high gas prices in California.

Evaluations to monetize the previously reported Borba gas discovery continued with review of alternative developments, these include electricity production for an onsite data centre, hydrolysis of natural gas for Hydrogen generation for the local transport market or other means of transporting the gas molecules to local markets. Permitting of onsite facilities is being initiated.

Production	June 2022 half-year	June 2021 half-year
Gross mcf ** (100%)	63,963	61,889
Net XST mcf (after Royalty)	6,392	6,156

XSTATE RESOURCES LIMITED

DIRECTORS' REPORT

For the six months ended 30 June 2022

Changes in Tenement / Project List Reporting Period:

The only change in projects during the half year was the formal acquisition of a 20% working interest in the Anshof Field Area. Xstate earned a 20% working interest by funding 40% of the drilling of Anshof-3.

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 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.

Regarding Austrian exploration, ADX Energy Ltd (the Operator) holds concession agreements for Anshof exploration licenses with the BMLRT on behalf of the Republic of Austria.

XSTATE RESOURCES LIMITED – Tenement Listing at 30 June 2022			
Project name	Category	Area	WI
Anshof-3	Production & Appraisal	Austria	25%
Alvares Project	Appraisal	California	25%
Dempsey 1-15 Well	Exploration & Appraisal	California	10%
Dempsey Trend	Active leasing 3 large prospects	California	33%
Rancho Capay Field	Production	California	10%
Malton field	Production	California	30%
Rice Creek, East Gas Fields	Production	California	10%
Los Medanos Gas Field	Production	California	10%
Dutch Slough Field	Production	California	30%
Red Earth	Production	Canada	25%
Alberta Plains	Production	Canada	35%

Future Strategy

The primary strategic objective for the Company is to maximise our existing producing assets in Canada, bring our Austrian oil discovery into production and identify new opportunities.

Corporate

As at 30 June 2022 the Company held cash and cash equivalents of \$715,535 and had 3,215,181,651 shares on issue across 4,335 shareholders. The top 20 holders held 809,313,843 shares representing 25.17% of the Company's issued capital.

Further information may be found in the Company's reports for the March 2022 and June 2022 quarters, released to the ASX on 29 April 2022 and 29 July 2022, respectively.

XSTATE RESOURCES LIMITED

DIRECTORS' REPORT

For the six months ended 30 June 2022

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 2022 (2021: Nil).

4. EVENTS SUBSEQUENT TO REPORTING DATE

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 13th day of September 2022

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 2022, 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.

A handwritten signature in black ink, appearing to read 'Ashleigh Woodley', is written over a light grey circular watermark that says 'For personal use only'.

Ashleigh Woodley
Director

BDO Audit (WA) Pty Ltd
Perth
13 September 2022

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

	Note	30 June 2022 \$	31 December 2021 \$
Assets			
Cash and cash equivalents		715,535	724,391
Trade and other receivables	9	12,890	885,988
Current tax receivable		97,691	-
Prepayments		33,952	43,632
Inventories		299,550	50,747
Total current assets		1,159,618	1,704,758
Oil and gas assets	10	33,846,645	38,685,399
Total non- current assets		33,846,645	38,685,399
Total assets		35,006,263	40,390,157
Liabilities			
Trade and other payables	11	(1,074,026)	(159,866)
Current tax liability		-	(278,155)
Borrowings		-	(4,918)
Employee benefits		-	(1,637)
Site restoration provision	12	(1,742,513)	(1,200,149)
Total current liabilities		(2,816,539)	(1,644,725)
Site restoration provision	12	(30,563,169)	(34,899,566)
Total non- current liabilities		(30,563,169)	(34,899,566)
Total liabilities		(33,379,708)	(36,544,291)
Net assets		1,626,555	3,845,866
Equity			
Share capital	13	58,083,830	58,083,830
Reserves		997,287	658,280
Accumulated losses		(57,454,562)	(54,896,244)
Total equity attributable to owners of the company		1,626,555	3,845,866

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 2022

	Note	30 June 2022 \$	30 June 2021 \$
Revenue from operating activities			
Production income	8	10,192,459	1,922,781
Other income		214,147	41,864
Expenses			
Other operating expenses		(9,552,424)	(2,059,762)
Exploration expenditure		(842,327)	(1,967,145)
Personnel expenses		(364,261)	(690,869)
General and administrative expenses		(48,565)	(82,999)
Professional fees		(210,734)	(92,746)
Depreciation and amortisation		(1,618,270)	(220,540)
Finance expenses		(283,787)	(7,860)
Foreign exchange gain / (loss)		2,933	-
Other (gains) / losses		-	30,998
Loss before income tax		(2,510,829)	(3,126,278)
Income tax expense		(47,489)	(4,370)
Loss for the period		(2,558,318)	(3,130,648)
Other Comprehensive Income			
Exchange differences on translation of foreign operations		71,049	57,720
Total Comprehensive loss for the half-year		(2,487,269)	(3,072,928)
Loss attributable to owners of the Company		(2,487,269)	(3,072,928)
Loss per share (cents per share)			
Basic and diluted (cents per share)		(0.08)	(0.13)

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 2022

	Note	Attributable to equity holders of the Company				Total \$
		Share capital \$	Translation reserve \$	Options reserve \$	Accumulated losses \$	
Balance at 1 January 2022		58,083,830	185,427	472,853	(54,896,244)	3,845,866
Total comprehensive loss for the period						
Loss for the period		-	-	-	(2,558,318)	(2,558,318)
Other comprehensive income						
Foreign exchange translation difference on foreign operations		-	71,049	-	-	71,049
Total other comprehensive income for the period		-	71,049	-	(2,558,318)	(2,487,269)
Total comprehensive loss for the period		-	71,049	-	(2,558,318)	(2,487,269)
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares		-	-	-	-	-
Share-based payment transactions	13	-	-	267,958	-	267,958
Capital raising costs		-	-	-	-	-
Total contributions by and distributions to owners		-	-	267,958	-	267,958
Balance at 30 June 2022		58,083,830	256,476	740,811	(57,454,562)	1,626,555

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 \$	Options 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 operations		-	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	13	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 CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2022

	30 June 2022 \$	30 June 2021 \$
Cash flow from operating activities		
Receipts from customers	1,591,203	-
Payments to suppliers and employees	(390,449)	(543,572)
Payments for exploration, evaluation and development	(803,086)	(1,873,394)
Interest paid	(31)	(2,933)
Interest received	37	-
Income taxes paid	(422,955)	(4,370)
Net cash used in operating activities	(25,281)	(2,424,269)
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)
Repayment of borrowings	(4,918)	(79,683)
Net cash (used in) / from financing activities	(4,918)	3,737,053
Net decrease in cash and cash equivalents	(30,199)	(461,923)
Cash and cash equivalents at 1 January	724,391	814,876
Effect of exchange rate fluctuations on cash held	21,343	33,148
Cash and cash equivalents at 30 June	715,535	386,101

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022

1 GENERAL INFORMATION

The Company is a for-profit, listed public company domiciled in Australia. The Company's registered office is located at Level 1, 31 Cliff Street, Fremantle, WA, 6160.

The consolidated interim financial report of the Company as at and for the six months ended 30 June 2022 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, having exploration interests in the United States of America and Austria. The Group also holds a working interest in oil and natural gas production assets in 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 2021, 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 2021.

2 GENERAL INFORMATION

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 13th September 2022.

3 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 2021. The Group has adopted the following Amendments to Australian Accounting Standards with a date of initial application of 1 January 2022.

Adoption of new and revised standards:

Standards and interpretations applicable to 30 June 2022

For the half-year ended 30 June 2022, 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 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 on the Group and therefore no material change is necessary to Group accounting policies.

3 SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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.

4 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 2021, with the exception of the following changes to judgements and estimates.

- Provision for site restoration Refer note 12

5 FOREIGN CURRENCIES

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

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.

6 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 2022, the Group recorded a loss of \$2,558,318 and had net cash outflows of \$30,199. As at 30 June 2022, the Group had net assets of \$1,626,555, a working capital deficit of \$1,656,921 and total cash on hand of \$715,535.

6 GOING CONCERN (*continued*)

A large proportion of the working capital deficit is attributable to operations of the Canadian oil and gas assets, with \$1,742,513 of estimated abandonment to be performed by the operator in the coming 12 months. These costs are not required to be paid upfront by the Group, but are realised as a reduction to operational cash distributions from the Operator. In addition to this, at 30 June 2022 the Group has a payable position to the Operator of the Canadian oil and gas assets as a result of necessary operational improvement costs being incurred to June 2022, as identified in note 11. This position is anticipated to be remediated via reduction in operational cash distributions from the operator over the coming six- to twelve-month period, rather than being payable from working capital of the Group upfront.

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 positive cash flows generated from the Group's interest in Canadian producing assets, realising positive cash flows from production evaluation activities from the Group's interest in Austrian exploration assets and, if required, securing additional funding through debt or equity issuances to continue to fund its exploration activities.

Since period end, the Company has received positive 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 its various production interests' capacity to produce positive cash flows and access to capital markets should they be needed to augment the Company's planned operations.

Should the activities identified above be unsuccessful in increasing cash flows to the entity, 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.

7 OPERATING SEGMENTS

Information about reportable segments

The Group is organised into three segments based on operations performed, and on geography, being:

- Oil & gas exploration activities on-shore United States of America;
- Oil & gas exploration activities on-shore Austria; and
- Oil & gas production activities on-shore Canada.

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

There has been no change in the basis of segmentation since the 31 December 2021 annual report.

Segment information provided to the chief operating decision maker

	Oil & gas exploration USA	Oil & gas exploration AUT	Oil & gas production CAN	Corporate	Eliminations	Total
30-Jun-2022						
Key segment P&L information						
Revenue from external customers	37,449	-	10,369,156	-	-	10,406,605
Profit / (loss) before tax	(133,756)	(676,719)	(1,116,644)	(583,709)	-	(2,510,830)
Exploration expenditure	165,608	676,719	-	-	-	842,327
Depreciation	-	-	383,841	-	-	383,841
Amortisation	-	-	1,234,429	-	-	1,234,429
Segment balance sheet information						
Current Assets	1,069	-	985,843	172,706	-	1,159,618
Non-current assets	-	-	33,846,645	-	-	33,846,645
Total Assets	1,069	-	34,832,488	172,706	-	35,006,263

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 OPERATING SEGMENTS *(continued)*

	Oil & gas exploration USA	Oil & gas exploration AUT	Oil & gas production CAN	Corporate	Eliminations	Total
Current liabilities	(56,494)	-	(2,702,114)	(57,933)	-	(2,816,541)
Non-current liabilities	(59,118)	-	(30,504,051)	-	-	(30,563,169)
Total liabilities	(115,612)	-	(33,206,165)	(57,933)	-	(33,379,710)
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)
31-Dec-2021						
Segment balance sheet information						
Current Assets	1,464	16,432	1,421,436	265,426	-	1,704,758
Non-current assets	-	-	38,685,399	-	-	38,685,399
Total Assets	1,464	16,432	40,106,835	265,426	-	40,390,157
Current liabilities	(68,115)	-	(1,478,304)	(98,306)	-	(1,644,725)
Non-current liabilities	(56,107)	-	(34,843,459)	-	-	(34,899,566)
Total liabilities	(124,222)	-	(36,321,763)	(98,306)	-	(36,544,291)

8 PRODUCTION INCOME

Revenue for the period ended 30 June 2022 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 2022.

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 production income is currently derived from Canadian production operations. There is nominal income currently generated via gas sales from the Group's Californian operations as a by-product of its exploration operations. This income is categorised as other income by virtue of being a by-product. The Group's revenue disaggregated by pattern of revenue recognition is as follows.

	30 June 2022	30 June 2021
	\$	\$
Crude oil sales		
Goods transferred at a point in time	9,912,093	1,901,253
Gas sales		
Goods transferred at a point in time	280,366	21,528
	10,192,459	1,922,781

9 TRADE AND OTHER RECEIVABLES

	30 June 2022	31 Dec 2021
	\$	\$
Current		
Net production revenue receivable	-	879,512
Authorised government agencies	12,890	6,476
	12,890	885,988

10 OIL AND GAS ASSETS

	Sub-surface assets \$	Surface assets \$	Assets in development \$	Total \$
Balance as at 1 January 2021	-	-	-	-
Acquisitions and Additions	3,846,267	198,120	-	4,044,387
Capitalisation of asset retirement obligation	22,266,487	7,758,698	-	30,025,185
Depletion of assets	(846,051)	(258,033)	-	(1,104,084)
Changes in asset retirement obligation estimates	3,470,474	1,140,708	-	4,611,182
Foreign exchange movements	854,408	254,321	-	1,108,729
Balance as at 31 December 2021	29,591,585	9,093,814	-	38,685,399
Additions	-	-	713,927	713,927
Depletion of assets	(1,234,452)	(383,818)	-	(1,618,270)
Changes in asset retirement obligation estimates	(3,910,724)	(1,308,942)	-	(5,219,666)
Foreign exchange movements	969,787	294,757	20,711	1,285,255
Balance as at 30 June 2022	25,416,196	7,695,811	734,638	33,846,645

11 TRADE AND OTHER PAYABLES

	30 Jun 2022 \$	31 Dec 2021 \$
Current		
Trade payables	(108,257)	(119,866)
Net production payable ¹	(947,269)	-
Other payables and accrued expenses	(18,500)	(40,000)
	(1,074,026)	(159,866)

¹ The Group has a net payable position on Canadian production operations as at 30 June 2022 as a result of the operator performing several necessary operations for the continued performance of the assets, namely:

- Undertaking a 3 well drilling program in Alberta Plains aimed at increasing Gross oil production by 200 BOPD;
- Undertaking workovers on previously inactive wells across both Red Earth and Alberta Plains assets in an effort to take advantage of increased oil prices – this has been a considerable part of the process of re-activation of both assets since their acquisitions in 2021; and
- Recommencement of historical abandonment work scheduled that was postponed by the previous operator as a result of the Covid-19 pandemic.

As a result of these operations, the Group has recorded a loss for the 6 months to 30 June in the Canadian Oil & Gas Production segment, however, the Directors are confident in the second half of the year proving to be a profitable period for both asset fields as a result of works performed to date.

The current payable position on Canadian operations is anticipated to be remediated via partial reduction of operational cash distributions received from Blue Sky Resources in the coming six- to twelve-month period.

12 SITE RESTORATION PROVISIONS

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 interests in the Red Earth assets and the Alberta Plains assets) gives rise to dismantling, decommissioning and site disturbance remediation activities which are expected to be incurred through until approximately 2045.

These provisions have been recognised based upon region specific cost estimates provided by the Alberta Energy Regulator (AER). The assumptions are based on the current economic environment and are contained within Directive 011 as provide by AER. These estimates are reviewed regularly to take into account any material changes to the assumptions, however, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend upon when the fields cease to produce at an economically viable rate. This, in turn, will depend upon future oil and gas prices, which are considered inherently uncertain.

The significant assumptions used in the calculation of the present value of the provisions are a risk-free rate of 2.819 percent, an inflation rate of 2 percent and the assumed timing of cash outflows from 2022 through 2045. The assumptions represent a change in estimate from the metrics utilised at 31 December 2021 as a result of changes in inflation since that period, in addition to changes in the risk-free rate. The Group has utilised the target rate of 2 percent set by Bank of Canada as the long term expected inflation rate for which to assess the estimated abandonment and restoration liability for the estimated life of the oil and gas fields.

12 SITE RESTORATION PROVISIONS (*continued*)

	30 Jun 2022 \$	31 Dec 2021 \$
Current		
Canadian asset retirement obligation	(1,742,513)	(1,200,149)
Non-current		
Canadian asset retirement obligation	(30,504,051)	(34,843,459)
Californian site restoration provision	(59,118)	(56,107)
Total Non-current	(30,563,169)	(34,899,566)
Total Provision	(32,305,682)	(36,099,715)

	30 Jun 2022 \$	31 Dec 2021 \$
Movement in carrying amounts		
Opening balance	(36,099,715)	(52,858)
Additional provisions recognised - Canada	-	(30,025,185)
Rehabilitation works performed	78,703	44,570
Unwinding of discount	(283,760)	(470,123)
Re-estimation of provision – Canada	5,371,089	(4,611,182)
Effects of foreign exchange	(1,371,999)	(984,937)
Closing balance	(32,305,682)	(36,099,715)

13 CAPITAL AND RESERVES

Share capital

	Ordinary shares			
	Number of shares		Amount in \$	
	30 June 2022	31 Dec 2021	30 June 2022	31 Dec 2021
Movements in ordinary shares on issue:				
On issue at period commence	3,215,181,651	1,811,240,898	58,083,830	50,427,398
<i>Shares issued and expensed during the period:</i>				
Working capital placement – 0.8 cents	-	500,000,125	-	4,000,001
Working capital placement – 0.4 cents	-	250,000,000	-	1,000,000
Issue of shares for acquisition of oil and gas working interests	-	333,927,468	-	2,252,971
Placement at 0.25 cents 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
Capital raising costs	-	-	-	(321,566)
On issue at 30 June	3,215,181,651	3,215,181,651	58,083,830	58,083,830

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

During the period, 105,000,000 options were issued to Directors and 10,500,000 options were issued to consultants. At the date of this report the Company has a total of 190,500,000 unissued ordinary shares under option with and exercise price of 0.5 cents and expiry dates of 31st December 2022 and 31st January 2024. The fair value of the options issued during the current period has been estimated using the Black and Scholes option pricing model. The key valuation assumptions made at valuation date are summarised on the following page.

13 CAPITAL AND RESERVES (*continued*)

	Number of options	Exercise price	Grant date	Expiry date	Life of options	Volatility	Risk free rate	Value per option
Directors	105,000,000	0.5 cents	31-May-22	31-Jan-24	1.67	207%	2.60%	\$0.0023
Consultants	10,500,000	0.5 cents	31-May-22	31-Jan-24	1.67	207%	2.60%	\$0.0023

A total expense of \$267,958 was recognised in Personnel Expenses the period in respect of the options issued to Directors and consultants. 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 (31 December 2021: nil).

14 SHARE-BASED PAYMENTS

The share-based payment expense included within the financial statements can be broken down as follows:

	30 June 2022 \$	30 June 2021 \$
Expensed in personnel expenses		
Options issued to Directors	243,598	567,423
Options issued to consultants	24,360	-

At 30 June 2022, a summary of the Company options in issue and not exercised are as follows, excluding any free-attaching options currently in issue. Options are settled by the physical delivery of shares.

Grant date	Vesting date	Expiry date	Exercise price (cents)	Opening balance	Granted during year	Exercised during year	Closing balance	Vested and exercisable
22-Jan-21	22-Jan-21	31-Dec-22	0.5	75,000,000	-	-	75,000,000	75,000,000
31-May-22	31-May-22	31-Jan-24	0.5	-	115,500,000	-	115,500,000	115,500,000
Total				75,000,000	115,500,000	-	190,500,000	190,500,000
Weighted Average Exercise Price					0.5	0.5	0.5	0.5

The weighted average remaining contractual life of options outstanding at year end was 1.16 year.

Options granted during the period have been valued using the Black-Scholes Option Valuation model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying shares, current market price of the underlying shares and the expected life of the option. The assumptions used for the grants made in the current financial period have been detailed below.

14 SHARE-BASED PAYMENTS (*continued*)

	Director/ Consultant options
Number of options	115,500,000
Exercise price (cents)	0.5
Grant date	31-May-22
Expiry date	31-Jan-24
Life of the options (years)	1.67
Volatility	206.88%
Risk free rate	2.60%
Fair value at grant date (cents)	0.23
Share price at grant date (cents)	0.3

15 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	
				2022	2021
				%	%
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
Xstate Energy AB	Oil and gas production	Alberta, Canada	31 December	100	100

16 SUBSEQUENT EVENTS

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.

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 2022 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 13th day of September 2022



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 2022, 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 2022 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 6 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 2022 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, stylized 'BDO' logo.

Ashleigh Woodley
Director

Perth

13 September 2022