



XSTATE RESOURCES LIMITED

ABN 96 009 217 154

INTERIM FINANCIAL REPORT

For the six months ended 30 June 2023

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CORPORATE DIRECTORY

Directors

Mr Andrew Childs
Mr Greg Channon
Mr Andrew Bald

Secretaries

Mr David McArthur
Mr Jordan McArthur

Registered and Principal Office

Level 1, 31 Cliff Street
Fremantle WA 6160

Website: www.xstateresources.com.au

Telephone: +61 8 9435 3200

Postal Address

PO Box 584
Fremantle WA 6959

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

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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 2023 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 Committee</i> | Appointed 6 June 2022 |

2. OPERATING AND FINANCIAL REVIEW

The half-year period from January to June 2023 represented a period of sustained oil and gas production in Canada, together with successful continuous oil production in Austria for the Company. In February, the Company entered into an agreement with Blue Sky Resources Limited (Blue Sky) to acquire a 25% working interest in 10,240 gross acres of leases prospective for Keg River Oil Production, adjacent to the current Red Earth Properties in Alberta, Canada. The acquisition was for C\$750,000 and included:

- 2 oil discovery wells which had been drilled, completed and recovered oil, which were planned for imminent equipping and commencement of production; and
- 10,240 gross acres of unencumbered crown land for exploration assessment, with 10 Keg River formation prospects mapped within the acreage.

The acquisition agreement also contained a Contingent Success Payment of C\$66,250 (net to Xstate) for each of the 2 oil discovery wells should they produce at a rate greater than 100 BOPD (Gross) for 45 days or more when production was commenced. These wells have subsequently been put online with the initial production beneath a combined 200 BOPD.

On 19 July 2023, the Company announced it had entered into an agreement with Blue Sky to sell its interest in the Alberta Plains assets for consideration of C\$1,575,000. After netting off costs owed to Blue Sky, the sale of the Alberta Plains assets will net Xstate C\$1,082,035 (approximately A\$1,200,000).

XSTATE RESOURCES LIMITED

DIRECTORS' REPORT

For the six months ended 30 June 2023

The Board decided it was appropriate to divest of the Alberta Plains assets as the operational performance had been poor during 2023, was not meeting internal expectations and that a capacity to monetise the asset value was appropriate in the interests of shareholders.

Highlights

- Continued production in Canada totaling 38,611 barrels of oil (bbl) net to Xstate, representing an average rate of 213 bopd (before royalties) to Xstate for the half year;
- Continued production via extended well testing in Austria of 4,076 bbl net to Xstate, representing an average rate of 22.5 bopd (before royalties) to Xstate for the half-year;
- Acquisition and commencement of production operations of Crest Jinn wells;
- Net Revenue from Operating activities (predominantly Canadian) of A\$3,332,116; and
- 10-for-1 consolidation of capital during March 2023.

Canadian producing assets (XST WI 25-35%)

The first half of the year saw continued stable production from the Red Earth assets. Production rates (net to Xstate) averaged 213 bopd (before royalties). Total production (net to Xstate) for half year period was 38,611 bbl. Revenue from the production amounted to A\$3.3 million, representing a realized oil price of A\$86.30/bbl. Operating costs were noted to be high for the first half of the year, and this related to costs and commitments associated with the acquisition and connection of the new assets within the Red Earth area during the half. The Company expects to see operating costs fall in the second half of the year.

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Red Earth Production Interests, Alberta, Canada

XSTATE RESOURCES LIMITED

DIRECTORS' REPORT

For the six months ended 30 June 2023

The Group has recorded a net payable position on Canadian production operations as at 30 June 2023 as a result of the operator performing several necessary operations for the continued performance of the assets, namely:

- Completing and connecting 2 wells in the newly acquired Red Earth properties;
- Undertaking workovers on previously inactive wells across Red Earth assets fields – this has been a continuing process undertaken by the operator since their acquisitions in 2021; and
- Continued abandonment work scheduled as required for compliance with the Alberta Energy Regulator.

As a result of these operations, the Group has recorded a loss for the 6 months to 30 June in the Canadian Oil Production segment, however, the Directors are confident the second half of the year operations will be more profitable as a result of the workovers performed.

As of the date of this report, the assets are producing approximately 885 BOPD (221 BOPD net to Xstate).

| Canadian Oil Reserves ^{1, 2} (Net to XST) | Red Earth |
|--|-----------|
| Proved and Probable Reserve (Million bbl) | 1.465 |
| Net XST (mmbbl) (after Royalty) | 1.326 |
| <i>Note 1: Refer to 31 December 2022 Annual Report</i> | |
| <i>Note 2: Gas converted to BOE using 6:1 ratio</i> | |

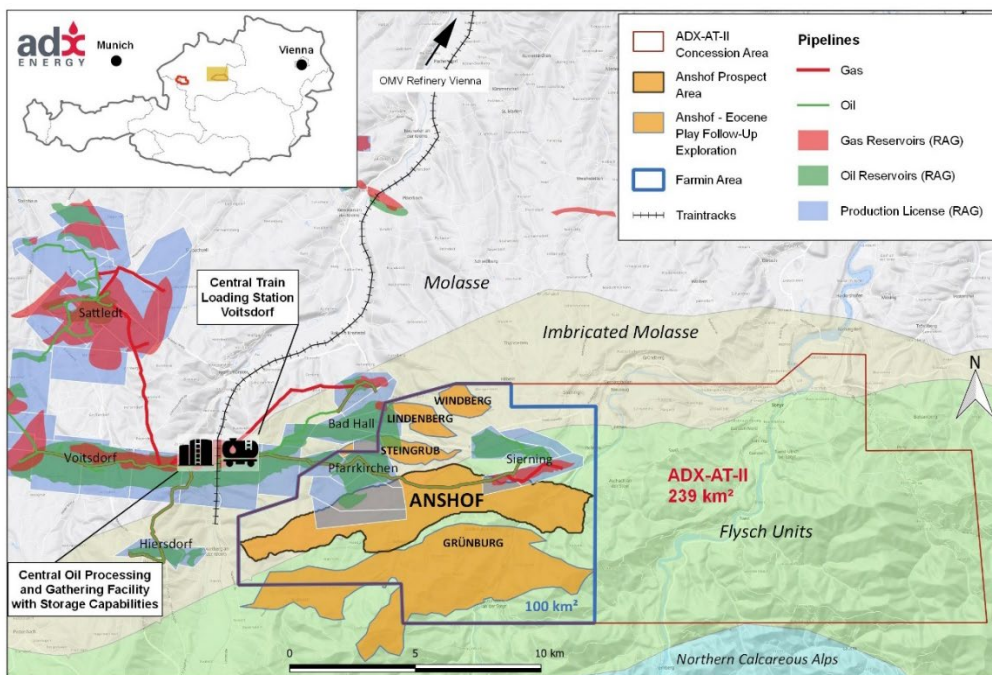
| Canadian Oil and Gas Production (BOE) | Six-months to 30-Jun-23 | Six-months to 30-Jun-22 |
|---|----------------------------|----------------------------|
| XST Production ¹ | 38,611 | 94,741 |
| XST Production after royalty ¹ | 31,376 | 82,566 |

¹ Due to the sale agreement of Alberta Plains assets, production information for 2023 is solely related to the Red Earth Assets and is therefore a significant decrease from the prior comparable period.

Anshof-3 Austrian Oil Discovery (20% WI)

During the half, oil production continued from the Anshof-3 well. Rates of up to 132 BOPD (36 BOPD net to XST) have been achieved, with no indications of water or lowering pressure. 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. Planning is underway for further drilling at Anshof.

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



Anshof Prospect Map

California Exploration and Production (Various WI's)

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 2023 half-year | June 2022 half-year |
|-----------------------------|---------------------|---------------------|
| Gross mcf ** (100%) | 58,462 | 63,963 |
| Net XST mcf (after Royalty) | 7,427 | 6,392 |

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XSTATE RESOURCES LIMITED

DIRECTORS' REPORT

For the six months ended 30 June 2023

Changes in Tenement / Project List Reporting Period:

The only change in projects during the half year was the acquisition of a 25% working interest in 10,240 ac in the Red Earth leases in Alberta Canada. Post period end, the Company divested its 35% working interest in the Alberta Plains assets, as announced to market on 19 July 2023.

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 2023

| Project name | Category | Area | WI |
|-----------------------------|----------------------------------|------------|-----|
| Anshof-3 | Production | 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% |

* Divested per announcement to market on 19 July 2023

Future Strategy

The primary strategic objective for the Company is to maximise existing producing assets in Canada and Austria and to identify new opportunities for the Company to pursue. The Company has been evaluating multiple new ventures in an effort to identify new opportunities for the Company moving forward.

Corporate

As at 30 June 2023 the Company held cash and cash equivalents of \$118,313 and had 321,519,150 shares on issue across 4,008 shareholders. The top 20 holders held 89,035,318 shares representing 27.69% of the Company's issued capital.

XSTATE RESOURCES LIMITED

DIRECTORS' REPORT

For the six months ended 30 June 2023

On 13 March 2023, shareholders voted in favour of a 10-for-1 consolidation of capital, whereby every 10 shares held was consolidated into 1 share, and all existing options on issue were consolidated on the same ratio. Following the meeting, the capital of the Company was consolidated on 15 March 2023. As a result of the consolidation, issued capital transitioned from 3,215,181,651 fully paid ordinary shares and 115,500,000 unlisted options exercisable at \$0.005 on or before 31 January 2024 to 321,518,165 fully paid ordinary shares and 11,550,000 unlisted options exercisable at \$0.05 on or before 31 January 2024.

On 30 June 2023, the Company issued 14,750,000 unlisted options exercisable at \$0.03 on or before 30 June 2026, in accordance with shareholder approval obtained at the Company's AGM held 30 May 2023. The options were issued to Directors and consultants.

Further information may be found in the Company's reports for the March 2023 and June 2023 quarters, released to the ASX on 28 April 2023 and 31 July 2023, 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 2023 (2022: Nil).

4. EVENTS SUBSEQUENT TO REPORTING DATE

On 19 July 2023, the Company announced that it had entered into an agreement with Blue Sky Resources Limited for the sale of its 35% working interest in the Alberta Plains assets for consideration of C\$1,575,000 (approximately A\$1,805,000), subject to receiving any approvals as required from ASX. The effective date of the transaction is 1 January 2023, and balances owing to Blue Sky at this date of C\$567,269 (approximately A\$650,000) were to offset the transaction proceeds. As at the date of this report, the Company has received approval from ASX on the transaction and balance of proceeds totalling C\$1,007,731 (approximately A\$1,155,000) will be received on completion date, 60 days from agreement execution.

XSTATE RESOURCES LIMITED

DIRECTORS' REPORT

For the six months ended 30 June 2023

Aside from the matters noted 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.

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ANDREW CHILDS

Executive Chairman

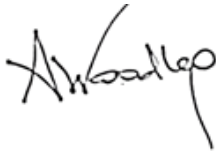
Dated at Perth, Western Australia this 13th day of September 2023

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 2023, 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
13 September 2023

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023**

| | Note | 30 June 2023 \$ | 31 December 2022 \$ |
|--|------|-----------------------|---------------------------|
| Assets | | | |
| Cash and cash equivalents | | 118,313 | 814,463 |
| Trade and other receivables | 9 | 93,625 | 4,548 |
| Current tax asset | | 140,871 | 134,231 |
| Prepayments | | 60,217 | 206,732 |
| Inventories | | 156,376 | 155,233 |
| Assets classified as held for sale | 10 | 20,971,869 | - |
| Total current assets | | 21,541,271 | 1,315,207 |
| Oil and gas assets | 11 | 12,872,387 | 30,499,918 |
| Total non-current assets | | 12,872,387 | 30,499,918 |
| Total assets | | 34,413,658 | 31,815,125 |
| Liabilities | | | |
| Trade and other payables | 12 | (1,811,361) | (1,433,190) |
| Borrowings | | (32,988) | - |
| Employee benefits | | - | (1,425) |
| Site restoration provision | 13 | (568,513) | (1,262,205) |
| Liabilities associated with assets classified as held for sale | 10 | (22,118,590) | - |
| Total current liabilities | | (24,531,452) | (2,696,820) |
| Site restoration provision | 13 | (9,609,492) | (28,419,462) |
| Total non-current liabilities | | (9,609,492) | (28,419,462) |
| Total liabilities | | (34,140,944) | (31,116,282) |
| Net assets | | 272,714 | 698,843 |
| Equity | | | |
| Share capital | 14 | 58,083,830 | 58,083,830 |
| Reserves | | 594,563 | 515,500 |
| Accumulated losses | | (58,405,679) | (57,900,487) |
| Total equity attributable to owners of the company | | 272,714 | 698,843 |

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 2023**

| | Note | 30 June 2023 \$ | 30 June 2022 \$ |
|---|------|-----------------------|-----------------------|
| Revenue from operating activities | | | |
| Production income | 8 | 3,788,783 | 10,192,459 |
| Other income | | 187,407 | 214,147 |
| Interest income | | 3,532 | - |
| Expenses | | | |
| Cost of sales | | (3,468,998) | (9,552,424) |
| Exploration expenditure | | (162,977) | (842,327) |
| Personnel expenses | | (166,320) | (364,261) |
| General and administrative expenses | | (75,777) | (48,565) |
| Professional fees | | (179,779) | (210,734) |
| Depreciation and amortisation | | (259,119) | (1,618,270) |
| Finance expenses | | (156,565) | (283,787) |
| Foreign exchange gain / (loss) | | (6,496) | 2,933 |
| Other expenses | | (5,075) | - |
| Loss before income tax | | (501,384) | (2,510,829) |
| Income tax expense | | (3,808) | (47,489) |
| Loss for the period | | (505,192) | (2,558,318) |
| Other Comprehensive Income | | | |
| Exchange differences on translation of foreign operations | | 7,672 | 71,049 |
| Total Comprehensive loss for the half-year | | (497,520) | (2,487,269) |
| Loss attributable to owners of the Company | | (497,520) | (2,487,269) |
| Loss per share (cents per share) | | | |
| Basic and diluted (cents per share)* | | (0.16) | (0.80) |

* 30 June 2022 Loss Per Share restated for the effects of consolidation of capital occurring March 2023.

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 2023

| | Note | Attributable to equity holders of the Company | | | | Total \$ |
|---|------|---|------------------------------|--------------------------|-----------------------------|----------------|
| | | Share capital \$ | Translation reserve \$ | Options reserve \$ | Accumulated losses \$ | |
| Balance at 1 January 2023 | | 58,083,830 | 247,542 | 267,958 | (57,900,487) | 698,843 |
| Total comprehensive loss for the period | | | | | | |
| Loss for the period | | - | - | - | (505,192) | (505,192) |
| Other comprehensive income | | | | | | |
| Foreign exchange translation difference on foreign operations | | - | 7,672 | - | - | 7,672 |
| Total other comprehensive income for the period | | - | 7,672 | - | - | 7,672 |
| Total comprehensive loss for the period | | - | 7,672 | - | (505,192) | (497,520) |
| Transactions with owners, recorded directly in equity: | | | | | | |
| Contributions by and distributions to owners | | | | | | |
| Issue of ordinary shares | | - | - | - | - | - |
| Share-based payment transactions | 15 | - | - | 71,391 | - | 71,391 |
| Capital raising costs | | - | - | - | - | - |
| Total contributions by and distributions to owners | | - | - | 71,391 | - | 71,391 |
| Balance at 30 June 2023 | | 58,083,830 | 255,214 | 339,349 | (58,405,679) | 272,714 |

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 | 15 | - | - | 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 CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

| | 30 June 2023 | 30 June 2022 |
|---|-------------------------|-------------------------|
| | \$ | \$ |
| Cash flow from operating activities | | |
| Receipts from customers | 290,400 | 1,591,203 |
| Payments to suppliers and employees | (223,970) | (390,449) |
| Refund from / (Payments for) exploration, evaluation and development | 72,574 | (803,086) |
| Interest paid | - | (31) |
| Interest received | 3,532 | 37 |
| Income taxes paid | (3,810) | (422,955) |
| Net cash generated from / (used in) operating activities | 138,726 | (25,281) |
| Cash flows from investing activities | | |
| Payments for acquisition of production interests | (831,962) | - |
| Net cash used in investing activities | (831,962) | - |
| Cash flow from financing activities | | |
| Repayment of borrowings | (14,732) | (4,918) |
| Net cash used in financing activities | (14,732) | (4,918) |
| Net decrease in cash and cash equivalents | (707,968) | (30,199) |
| Cash and cash equivalents at 1 January | 814,358 | 724,391 |
| Effect of exchange rate fluctuations on cash held | 11,925 | 21,343 |
| Cash and cash equivalents at 30 June | 118,315 | 715,535 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

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 2023 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 production and exploration, having oil production interests in Canada and Austria, along with oil and natural gas exploration interests in the United States of America.

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 2022, 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 2022.

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 2023.

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 2022. The Group has adopted the following Amendments to Australian Accounting Standards with a date of initial application of 1 January 2023.

Adoption of new and revised standards:

Standards and interpretations applicable to 30 June 2023

For the half-year ended 30 June 2023, 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 2023.

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.

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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 2023.

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 2022, with the exception of the following changes:

- Assets classified as held for sale (note 10)
- Oil and gas assets (note 11)
- Share-based payments (note 15)

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.

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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 2023, the Group recorded a loss before tax of \$501,384 (30 June 2022: \$2,510,829) and had net cash outflows of \$707,968 (30 June 2022: \$30,199). As at 30 June 2023, the Group had net assets of \$272,714 (31 December 2022: \$698,843), a working capital deficit of \$2,990,181 (31 December 2022: \$1,381,613) and total cash on hand of \$118,313 (31 December 2022: \$814,463).

A large component of the working capital deficit is attributable to operations of the Canadian oil and gas assets, with \$568,513 of estimated abandonment to be performed by the operator in the coming 12 months. These costs are not required to be paid by the Group but are realised as a reduction to operational cash distributions from the Operator. Additionally, at 30 June 2023, the Group has a payable position to the Operator of the Canadian oil production assets as a result of operational commencement activities at the two wells acquired in January 2023 near the Keg River, along with necessary operational improvement costs being incurred to June 2023, as identified in note 12. 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.

The ability of the Group to continue as a going concern is dependent on a combination of:

- positive cash flows generated from the Group's interest in Canadian producing assets;
- receipt of funds from sale of Alberta Plains assets;
- potential sale of Canadian production working interests;
- continued positive cash flows from production activities from the Group's interest in Austrian oil assets;
- potential improvement in Austrian operational cash flows following development drilling; and
- if required, securing additional funding through debt or equity issuances to continue to fund its exploration activities.

In addition to the above dependencies, the Group identifies that the working interests held in Canadian and Austrian production operations have the potential to be monetised through a sale, should the Company be required to raise funds through alternate avenues.

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 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.

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 production 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 2022 annual report.

Segment information provided to the chief operating decision maker

| | Oil & gas exploration USA | Oil production AUT | Oil production CAN | Corporate | Eliminations | Total |
|--|---------------------------------|--------------------------|--------------------------|------------------|-----------------|-------------------|
| 30-Jun-2023 | | | | | | |
| Key segment P&L information | | | | | | |
| Revenue from external customers | - | 456,667 | 3,332,116 | - | - | 3,788,783 |
| Profit / (loss) before tax | (37,689) | 67,756 | (112,384) | (419,067) | - | (501,384) |
| Exploration expenditure | 124,753 | 38,225 | - | - | - | 162,978 |
| Depreciation | - | - | 73,913 | - | - | 73,913 |
| Amortisation | - | - | 185,205 | - | - | 185,205 |
| Segment balance sheet information | | | | | | |
| Current Assets | 866 | 136,889 | 21,309,366 | 186,429 | (92,279) | 21,541,271 |
| Non-current assets | - | 122,740 | 12,749,647 | - | - | 12,872,387 |
| Total Assets | 866 | 259,629 | 34,059,013 | 186,429 | (92,279) | 34,413,658 |

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XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 OPERATING SEGMENTS (continued)

| | Oil & gas exploration USA | Oil production AUT | Oil production CAN | Corporate | Eliminations | Total |
|--|---------------------------------|---------------------------|--------------------------------|------------------|-----------------|---------------------|
| Current liabilities | (18,398) | - | (24,383,229) | (222,104) | 92,279 | (24,531,452) |
| Non-current liabilities | (61,367) | (68,132) | (9,479,993) | - | - | (9,609,492) |
| Total liabilities | (79,765) | (68,132) | (33,863,222) | (222,104) | 92,279 | (34,140,944) |
| | Oil & gas exploration USA | Oil 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 |
| 31-Dec-2022 | | | | | | |
| Segment balance sheet information | | | | | | |
| Current Assets | 1,191 | 206,512 | 1,049,474 | 150,309 | (92,279) | 1,315,207 |
| Non-current assets | - | - | 30,499,918 | - | - | 30,499,918 |
| Total Assets | 1,191 | 206,512 | 31,549,392 | 150,309 | (92,279) | 31,815,125 |
| Current liabilities | - | - | (2,702,671) | (86,428) | 92,279 | (2,696,820) |
| Non-current liabilities | (59,768) | - | (28,359,694) | - | - | (28,419,462) |
| Total liabilities | (59,768) | - | (31,062,365) | (86,428) | 92,279 | (31,116,282) |

8 PRODUCTION INCOME

Revenue for the period ended 30 June 2023 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 2023.

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 and Austrian 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 2023 \$ | 30 June 2022 \$ |
|--------------------------------------|-----------------------|-----------------------|
| Crude oil sales | | |
| Goods transferred at a point in time | 3,788,783 | 9,912,093 |
| Gas sales | | |
| Goods transferred at a point in time | - | 280,366 |
| | 3,788,783 | 10,192,459 |

9 TRADE AND OTHER RECEIVABLES

| | 30 June 2023 \$ | 31 Dec 2022 \$ |
|-------------------------------------|-----------------------|----------------------|
| Current | | |
| Net production receivable - Austria | 76,672 | - |
| Authorised government agencies | 16,953 | 4,548 |
| | 93,625 | 4,548 |

10 ASSETS CLASSIFIED AS HELD FOR SALE

On 17 July 2023, Xstate Energy Limited (Xstate's wholly owned Canadian subsidiary) ("**Xstate Energy**") entered into a binding sale and purchase agreement with Blue Sky Resources Limited ("**Blue Sky**" or "**the Operator**") to sell its 35% working interest in the Alberta Plains assets for consideration of C\$1,575,000 (approximately A\$1,805,000).

Completion of the transaction remains subject to receipt of funds from Blue Sky. Completion date for the sale was agreed for 60 days from execution of the agreement, being 15 September 2023.

As Xstate Energy owed amounts to Blue Sky from loss making operations, at settlement the Company will net C\$1,007,731 (approximately A\$1,155,000) after amounts owing to Blue Sky are deducted from the sale proceeds.

The sale agreement was subject to receipt of shareholder approval, should it be required by ASX. Through consultation with ASX, it was determined ASX Listing Rule 11.1.2 did not apply to the transaction, and shareholder approval was therefore not required for the transaction.

As a result of the sale and purchase agreement, at 30 June 2023, the Oil and Gas assets were classified as held for sale. Additionally, the restoration provisions and amounts payable to the Operator have been classified as liabilities relating to non-current assets held for sale.

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XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 ASSETS CLASSIFIED AS HELD FOR SALE (continued)

In accordance with accounting standards, balances associated with the Company's Alberta Plains Assets have been disclosed as assets held for sale and associated liabilities on the basis that:

- They are available for immediate sale;
- Management is committed to a plan for their sale;
- It is unlikely significant changes will occur to that plan;
- An active program to locate a buyer has commenced;
- The asset is marketed at a reasonable price in relation to fair value; and
- A sale is expected to complete within 12 months from classification date.

As the proposed asset sale meets the criteria in the accounting standards, the amounts related to the Alberta Plains Assets have been disclosed as assets classified as held for sale, and liabilities associated with assets classified as held for sale.

Assets classified as held for sale

| | | Sub-surface assets | Surface assets | Total |
|---|----|-------------------------------|---------------------------|-------------------|
| | | \$ | \$ | \$ |
| Transfer of asset balances as at 1 January 2023 | 11 | 14,461,097 | 5,653,066 | 20,114,163 |
| Foreign exchange movements | | 616,649 | 241,058 | 857,706 |
| Balance as at 30 June 2023 | | 15,077,745 | 5,894,124 | 20,971,869 |

Liabilities associated with assets classified as held for sale

| | | Net Production Payable | Restoration Provision | Total |
|---|----|---------------------------------------|----------------------------------|---------------------|
| | | \$ | \$ | \$ |
| Transfer of liability balances as at 1 January 2023 | 12 | (618,622) | (20,595,363) | (21,213,985) |
| Foreign exchange movements | | (26,379) | (878,225) | (857,706) |
| Balance as at 30 June 2023 | | (645,001) | (21,473,589) | (22,118,589) |

Net liability associated with Alberta Plains Assets (\$1,146,720)

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XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 OIL AND GAS ASSETS

| | Sub-surface assets \$ | Surface assets \$ | Assets in development \$ | Total \$ |
|---|-----------------------------|-------------------------|--------------------------------|---------------------|
| Balance as at 1 January 2022 | 29,591,585 | 9,093,814 | - | 38,685,399 |
| Additions | - | 1,516,294 | - | 1,516,294 |
| Depletion of assets | (2,600,624) | (787,878) | - | (3,388,502) |
| Changes in asset retirement obligation estimates | (4,829,997) | (1,622,828) | - | (6,452,825) |
| Foreign exchange movements | 130,022 | 9,530 | - | 139,552 |
| Balance as at 31 December 2022 | 22,290,986 | 8,208,932 | - | 30,499,918 |
| Additions | - | 786,778 | 52,951 | 839,729 |
| Acquisition of Canadian Acreage ¹ | 697,273 | 166,392 | - | 863,665 |
| Capitalisation of retirement obligation estimates | 66,455 | - | - | 66,455 |
| Transfer to assets held for sale 10 | (14,461,097) | (5,653,066) | - | (20,114,163) |
| Depletion of assets | (185,205) | (73,913) | - | (259,118) |
| Changes in asset retirement obligation estimates | 196,682 | 66,667 | - | 263,349 |
| Foreign exchange movements | 512,571 | 198,323 | 1,658 | 712,552 |
| Balance as at 30 June 2023 | 9,117,665 | 3,700,113 | 54,609 | 12,872,387 |

- 1 On 3 February 2023, Xstate announced it had acquired a 25% working interest in 2 discovery wells and 10,240 gross acres of prospective leases. The key terms of the acquisition were:
- Upfront payment of C\$750,000 for acquisition of 25% WI; and
 - Contingent Success Payment of C\$66,250 (net to Xstate) should either of the 2 discovery wells produce at a rate greater than 100 BOPD each for a period of more than 45 days when production recommences. As of the date of this report, neither well has flowed at this rate and therefore the contingent success payment will not occur.

When an asset acquisition does not constitute a business combination, the assets and liabilities are assigned a carrying amount based on their relative fair values in an asset purchase transaction. No goodwill arose on the acquisition and assets acquired during the period were capitalised as oil and gas assets accordingly. Liabilities pertaining to retirement obligations at end of life have also been capitalised under accounting standards.

12 TRADE AND OTHER PAYABLES

| | 30 Jun 2023 \$ | 31 Dec 2022 \$ |
|-------------------------------------|----------------------|----------------------|
| Current | | |
| Trade payables | (202,252) | (48,218) |
| Net production payable ¹ | (1,587,061) | (1,348,187) |
| Other payables and accrued expenses | (22,050) | (36,785) |
| | (1,811,362) | (1,433,190) |

- 1 The Group has a net payable position on Canadian production operations as at 30 June 2023 as a result of a combination of development activity on the newly acquired acreage wells and necessary operational CAPEX for the continued performance of the remaining Red Earth assets.

As a result of these operations, the Group has recognised an increased payable balance for the 6 months to 30 June 2023 to the Operator. However, the Directors are confident in the second half of the year proving to be a profitable period and for the newly acquired wells to commence paying down the CAPEX injected.

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.

13 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 assets)

The activities of the joint operation in Alberta, Canada (comprising the Group's working interests in the Red Earth 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 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 3.45 percent (31 December 2022: 3.45 percent), a long term inflation rate assumption of 2 percent (31 December 2022: 2 percent) and the assumed timing of cash outflows from 2023 through 2045.

Provisions are made for the estimated cost of asset retirement obligations associated with site restoration and are capitalised to Oil and Gas Assets, and amortised over the useful life of the assets.

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13 SITE RESTORATION PROVISIONS (*continued*)

| | 30 Jun 2023 \$ | 31 Dec 2022 \$ |
|--|----------------------|----------------------|
| Current | | |
| Canadian asset retirement obligation | (568,513) | (1,262,205) |
| Non-current | | |
| Canadian asset retirement obligation | (9,479,993) | (28,359,694) |
| Austrian asset retirement obligation | (68,132) | - |
| Californian site restoration provision | (61,367) | (59,768) |
| Total Non-current | (9,609,492) | (28,419,462) |
| Total Provision | (10,178,005) | (29,681,667) |

| | 30 Jun 2023 \$ | 31 Dec 2022 \$ |
|---|----------------------|----------------------|
| Movement in carrying amounts | | |
| Opening balance | (29,681,667) | (36,099,715) |
| Additional provisions recognised - Canada | (44,339) | - |
| Additional provisions recognised - Austria | (66,455) | - |
| Amounts transferred to Liability Associated with AHFS | 20,595,363 | - |
| Rehabilitation works performed | 44,027 | 808,744 |
| Unwinding of discount | (156,565) | (736,818) |
| Re-estimation of provision – Canada | (272,635) | 160,938 |
| Effects of change in discount rate | - | 6,291,886 |
| Effects of foreign exchange | (595,734) | (106,702) |
| Closing balance | (10,178,005) | (29,681,667) |

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14 CAPITAL AND RESERVES

Share capital

| | Ordinary shares | | | |
|---|----------------------|----------------------|-------------------|-------------------|
| | Number of shares | | Amount in \$ | |
| | 30 June 2023 | 31 Dec 2022 | 30 June 2023 | 31 Dec 2022 |
| Movements in ordinary shares on issue: | | | | |
| On issue at start of period | 3,215,181,651 | 3,215,181,651 | 58,083,830 | 58,083,830 |
| Share movements during the period: | | | | |
| Consolidation of capital ¹ | (2,893,662,501) | - | - | - |
| On issue at end of period | 321,519,150 | 3,215,181,651 | 58,083,830 | 58,083,830 |

¹ On 13 March 2023, Shareholders voted in favour of a 10-for-1 consolidation of capital. As a result, the consolidated issued capital was reduced by 2,893,662,501 shares, after accounting for rounding.

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, 12,000,000 options were issued to Directors and 2,750,000 options were issued to consultants. The Company had 115,500,000 options on issue at the commencement of the period, and as a result of the consolidation of capital noted above, these options previously on issue were consolidated down to a total of 11,550,000 options. The options on issue originally had an exercise price of \$0.005 per option, this was increased to \$0.05 per option as a result of the capital consolidation. No alteration to the expiration dates occurred.

At the date of this report the Company has a total of 26,300,000 unissued ordinary shares under option with and exercise prices of 5 cents with expiry date of 31 January 2024, and 3 cents with expiry date 30 June 2026. 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.

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14 CAPITAL AND RESERVES (continued)

| | Number of options | Exercise price | Grant date | Expiry date | Life of options | Volatility | Risk free rate | Value per option |
|-------------|-------------------|----------------|------------|-------------|-----------------|------------|----------------|------------------|
| Directors | 12,000,000 | 3 cents | 30-May-23 | 30-Jun-26 | 3.09 | 100% | 3.20% | \$0.0048 |
| Consultants | 2,750,000 | 3 cents | 30-May-23 | 30-Jun-26 | 3.09 | 100% | 3.20% | \$0.0048 |

A total expense of \$71,391 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 2022: nil).

15 SHARE-BASED PAYMENTS

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

| | 30 June 2023 | 30 June 2022 |
|---------------------------------------|--------------|--------------|
| | \$ | \$ |
| Expensed in personnel expenses | | |
| Options issued to Directors | 58,081 | 243,598 |
| Options issued to consultants | 13,310 | 24,360 |

At 30 June 2023, 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 |
|--|--------------|-------------|------------------------|-------------------|---------------------|-----------------------|-------------------|------------------------|
| 31-May-22 | 31-May-22 | 31-Jan-24 | 5 | 11,550,000* | - | - | 11,550,000 | 11,550,000 |
| 30-May-23 | 30-May-23 | 30-Jun-26 | 3 | - | 14,750,000 | - | 14,750,000 | 14,750,000 |
| Total | | | | 11,550,000 | 14,750,000 | - | 26,300,000 | 26,300,000 |
| Weighted Average Exercise Price | | | | 5 | 3 | - | 3.89 | 3.89 |

* These number of options identified in this note are on a post capital consolidation basis.

The weighted average remaining contractual life of options outstanding at year end was 1.94 years.

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.

15 SHARE-BASED PAYMENTS (continued)

| | Director/ Consultant options |
|-----------------------------------|---|
| Number of options | 14,750,000 |
| Exercise price (cents) | 3 |
| Grant date | 30-May-23 |
| Expiry date | 30-Jun-26 |
| Life of the options (years) | 3.09 |
| Volatility | 100% |
| Risk free rate | 3.20% |
| Fair value at grant date (cents) | 0.48 |
| Share price at grant date (cents) | 1.10 |

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 | |
|-------------------|-------------------------|--------------------------------------|--------------------|----------------------------------|--------|
| | | | | 2023 % | 2022 % |
| 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 Energy AB | Oil and gas production | Alberta, Canada | 31 December | 100 | 100 |

16 SUBSEQUENT EVENTS

On 19 July 2023, the Company announced that it had entered into an agreement with Blue Sky Resources Limited for the sale of its 35% working interest in the Alberta Plains assets for consideration of C\$1,575,000 (approximately A\$1,805,000), subject to receiving any approvals as required from ASX. The effective date of the transaction is 1 January 2023, and balances owing to Blue Sky at this date of C\$567,269 (approximately A\$650,000) were to offset the transaction proceeds. As at the date of this report, the Company has received approval from ASX on the transaction and balance of proceeds totalling C\$1,007,731 (approximately A\$1,155,000) will be received on completion date, 60 days from agreement execution.

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 2023 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) other than as disclosed in note 6, 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 2023



ANDREW CHILDS
Executive Chairman

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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 2023, 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 2023 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 2023 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



Ashleigh Woodley

Director

Perth

13 September 2023