XSTATE RESOURCES LIMITED

ABN 96 009 217 154

ANNUAL FINANCIAL REPORT
For the year ended 31 December 2019

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CORPORATE DIRECTORY

Directors

Mr David McArthur
Mr Chris Hodge
Mr Richard Lorentz

Company Secretaries

Mr David McArthur
Mr Jordan McArthur

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Auditors

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Bankers

ANZ Banking Group Limited
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Perth WA 6000

Share Registry

Advanced Share Registry Services
110 Stirling Highway
Nedlands WA 6009

ASX Code

Shares: XST

Legal Form of Entity

Public Company

Country of Incorporation and Domicile

Australia

REVIEW OF OPERATIONS

Overview

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

The 2019 financial year was another challenging year for Xstate. The litigation case against the three Singapore defaulting investors consumed a large amount of time in the first half of the year. In March, the Company entered into a Forbearance to Sue Agreement with Hong Hung Thiam for a sum of A$500,000 to be paid by May 2019. This amount was received in full by the Company. In July, Tanzil Hidayat, one of the defendants, was found guilty of 13 contemptuous acts and sentenced to 30 days imprisonment on failure to pay a fine of SGD$60,000.

The Directors made the decision during the final quarter of 2019 to put legal recovery proceedings against Tanzil Hidayat, for recoupment of the Australian judgement debt owed to the Company, on hold until such a time as it is deemed appropriate to continue pursuing recovery proceedings. Xstate maintains the capacity to pursue the full recovery of the Australian judgement debt from Tanzil Hidayat at any time. The Directors consider it prudent to focus efforts elsewhere at the current time.

The Board of Directors reviewed and assessed several exploration opportunities in North America and South East Asia during the year for alignment with the Company's strategic direction. In May, the Company entered into a Farm-in agreement with Mosman Oil & Gas for a 25% interest on their Champion Project Area interests, onshore Newton County, Texas. In August, this agreement was terminated due to significant delays in the drilling scheduled.

Despite difficulties and setbacks encountered during the year, the Xstate Board remains committed to progressing operations with existing assets in California, whilst assessing various opportunities to secure producing or high-quality and low risk speculative assets. Xstate, in conjunction with its joint venture partners in California, will seek to maximise value from the underexplored assets in the Sacramento basin in California.

Gas production leases

Xstate holds participating interests of between 10%-30% in various gas production assets in the Sacramento basin in California. The purpose of the initial investment in these assets was to acquire the leases for further exploration and to access an extensive 3D seismic database from which to generate new exploration opportunities, whilst also securing strategic infrastructure and growing gas production.

Gas production for the year was 181,529 cubic feet gross, with 21,189 cubic feet net to Xstate.

The Californian energy system remains highly reliant on gas, supplying about one third of California's primary energy demand. About 90% of California's natural gas is sourced outside the state. Generation of a local supply of natural gas would have obvious benefits. Californian natural gas prices remain higher than US benchmark Henry Hub prices, remaining at a premium of about 40% to the US benchmark. Xstate and the joint venture partners will work to increase the natural gas production from existing producing assets held by the joint venture. Increasing low cost production from existing producing assets would provide immediate benefits to Xstate and its joint venture partners. There is also the possibility of bringing additional wells back into gas flowing conditions.

Borba Prospect

Xstate holds a 24% working interest in 60% of the Borba lease area. 2020 is anticipated to see the drilling of an appraisal well at Borba 1-7.

The drilling of the Borba 1-7 well represents a strategic opportunity for Xstate. The project operator sees the Borba prospect to be an optimal location to test multiple stacked amplitude anomalies and potential channel fill sand reservoirs, in a vertical well.

The Borba Prospect is a large four-way dip closure mapped on 3D seismic with multiple targets and multi-TCF potential. Final drilling permits have been received from the Californian regulators for the drilling of the well to an estimated total depth of 2,800 metres. The first undrilled amplitude anomaly occurs at around 700 metres drilling depth. Multiple seismic anomalies below this depth are interpreted to represent individual gas traps.

Xstate is awaiting guidance from the operator of the project as to timing for the drilling of the well.

Alvares Project

Xstate holds a 25% participating interest in the Alvares project. The project involves the appraisal of the Alvares-1 gas discovery made in 1982 on a large structure mapped on 2D seismic. The plan is to re-enter the original well bore, test the integrity of the casing, wireline log to select perforation zones- and if warranted, to test the main objective. Xstate is awaiting guidance from the operator (SGC) as to the timing for this operation.

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

The Financial Year

On 15 July 2019, Mr David McArthur resigned as a Non-executive Director of the Company.

On 26 November 2019, Mr David McArthur was appointed as interim Managing Director of the Company, and Mr Richard Lorentz was appointed as a Non-executive Director. Additionally on this date, Mr Cosimo Damiano resigned as Managing Director and Mr Ian Tchacos resigned as a Non-executive Director.

On 3 December 2019, the Company issued 285 million fully paid shares at 0.2 cents per share via a private placement to raise $570,000 before costs.

As at 31 December 2019, the Company held cash and cash equivalents of $540,495.

As at 31 December 2019, Xstate had 1,425,490,898 shares on issue and 1,554 shareholders. It's Top 20 holders held 672,905,053 shares or 47.2% of the Company's issued capital.

Financial results and condition

The net loss for the financial year ended 31 December 2019 after income tax was $701,597 (2018: loss of $1,280,675).

The Group has a working capital deficit of $48,797 (2018: surplus of $110,674) and net cash outflows of $455,967 (2018: inflow $319,002).

The Company remains acutely aware of the current economic climate and continues to implement cost-reduction measures across the business.

Summary of results

	2019 $	2018 $
Revenue from ordinary activities	-	-
Other income	569,292	528,380
Loss before income tax	(699,043)	(1,276,149)
Income tax expense	(2,554)	(4,526)
Net Loss for the year	**(701,597)**	**(1,280,675)**
Other comprehensive (loss) / income	(13,678)	(3,865)
Total comprehensive loss for the year	**(715,275)**	**(1,284,540)**
Underlying loss per share (cents)	(0.06)	(0.16)
Shares in issue at reporting date	1,425,490,898	1,140,490,898
Weighted average number of shares	1,163,134,734	824,902,769

Planned Activity - 2020

The Company will seek to continue with the activities outlined in the operations review in addition to assessing various opportunities to secure producing or high-quality and low risk speculative assets.

Competent person statement

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

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 financial year ended 31 December 2019 and the auditor's report thereon.

1. DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

Name and independence status	Experience, qualifications, special responsibilities and other directorships
Cosimo Damiano Managing Director Appointed: 27 October 2015 Resigned: 26 November 2019 *Appointed positions* **Executive Director** Appointed 27 October 2015 **Managing Director** Appointed 31 May 2016 *Interest in shares and options upon resignation* Shares: 20,900,000 Options: 13,000,000	Mr. Damiano's experience involves the strategic analysis and financial modelling of oil & gas companies for global investment banks and energy commodity trading companies in a principal investment role. This experience has provided Mr. Damiano with a strong commercial understanding and analytical analysis of financing oil and gas assets across various geographic and fiscal regimes. Mr Damiano has extensive experience in North America, representing the Mercuria Group as a Director of Upstream Investments and represented Mercuria's Board interests in the company's oil and gas investments throughout North America located in California and North Dakota.
David McArthur Interim Managing Director Appointed: 3 September 2013 Resigned: 15 July 2019 Reappointed: 26 November 2019 *Appointed positions* **Non-executive Director** Appointed 3 September 2013 Resigned 15 July 2019 **Interim Managing Director** Appointed 26 November 2019 *Interest in shares and options* Shares: 24,993,699 Options: 9,000,000	David McArthur is a Chartered Accountant, having spent four years with a major international accounting firm, and has over 35 years' experience in the accounting profession. Mr McArthur has been actively involved in the financial and corporate management of a number of public listed companies over the past 31 years. Mr McArthur has a Bachelor of Commerce Degree from the University of Western Australia. Mr McArthur has substantial experience in capital raisings, company re-organisations and restructuring, mergers and takeovers, and asset acquisitions by public companies. Mr McArthur is a Non-Executive Director of Lodestar Minerals Limited. Mr McArthur was a Director of Sacgasco Limited until 1 February 2017 and a Director of Smart Marine Systems Limited until 3 September 2019.

1. DIRECTORS (continued)

Name and independence status	Experience, qualifications, special responsibilities and other directorships
Chris Hodge Non-executive Director Appointed: 12 November 2013 *Appointed positions* **Non-executive Director** Appointed 12 November 2013 *Interest in shares and options* Shares: 12,617,339 Options: 9,000,000	Chris Hodge is a qualified geologist and petroleum geophysicist with extensive technical experience both in Australia and overseas. He has held managerial positions in major petroleum exploration and production companies and played a significant part in the growth of these companies via a mix of successful exploration and acquisition. Mr Hodge is a member of the Petroleum Exploration Society of Australia ("PESA") and the American Association of Petroleum Geologists ("AAPG"). He is also a Member of the Australian Institute of Company Directors ("MAICD") and holds a Graduate Diploma in Applied Finance and Investment. Mr Hodge is CEO and Managing Director of Horizon Oil Limited. Mr Hodge was a Non-executive Director of Horizon Oil from 11 April 2019 until 14 February 2020. Mr Hodge is Chair of the Audit and Risk Management Committee and the Nominations and Remuneration Committee.
Ian Tchacos Non-executive Director Appointed: 12 August 2014 Resigned: 26 November 2019 *Appointed positions* **Non-executive Director** Appointed 12 August 2014 Resigned 26 November 2019 *Interest in shares and options upon resignation* Shares: 9,532,019 Options: 9,000,000	Mr Tchacos is a mechanical engineer with over 25 years international experience in corporate development and strategy, mergers and acquisitions, exploration, development and production, operations, marketing and finance. He has a proven management track record in a range of international company environments. In his last appointment as Managing Director of Nexus Energy, he was responsible for the company's development from an onshore micro-cap explorer to an ASX top 200 onshore producer and operator. Mr Tchacos is Executive Chairman of ADX Energy Limited.
Richard Lorentz Non-executive Director Appointed: 26 November 2019 *Appointed positions* **Non-executive Director** Appointed 26 November 2019 *Interest in shares and options* Shares: Nil Options: Nil	Mr Lorentz is a petroleum geologist and a leading member of the upstream oil and gas community in Southeast Asia with a career spanning the better part of four decades. Aside from playing key roles in the discovery and development of several oil and gas fields, he has an unmatched network of industry, government and investment relationships and has been instrumental in the evolution of three E&P companies to public listing status. Mr Lorentz is a member of the Audit and Risk Management Committee and the Nominations and Remuneration Committee.

2. COMPANY SECRETARIES

Mr David McArthur is a Chartered Accountant and was appointed to the position of Company Secretary on 29 October 1999. Mr McArthur has over 32 years' experience in the corporate management of publicly listed companies.

Jordan McArthur is a Chartered Accountant and was appointed to the position of joint company secretary on 17 April 2018. Mr McArthur has 10 years corporate and financial experience in Australian and the United Kingdom.

3. DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held during the year ended 31 December 2019, and the number of meetings attended by each Director was:

Director	Full meetings of Directors		Meeting of Audit and Risk Management Committee	
	No. of meetings attended	No. of meetings held whilst a Director	No. of meetings attended	No. of meetings held whilst a Director
Cosimo Damiano	6	6	2*	2
Chris Hodge	7	7	2	2
David McArthur	7	7	2	2
Ian Tchacos	6	6	1	2
Richard Lorentz	1	1	Nil	Nil

* Attended as invitee

4. PRINCIPAL ACTIVITIES

The principal activity of the Group during the course of the financial year was oil and natural gas exploration.

5. OPERATING AND FINANCIAL REVIEW

Information on the operations and financial position of the Group and its strategies and prospects is set out in the Review of Operations at the beginning of this Annual Report.

Significant changes in the state of affairs

Other than the matters discussed in section 8 of the Directors Report and changes to the Board of Directors as noted in section 1, there have been no other significant changes in the state of affairs for the entity.

6. DIVIDENDS

The directors recommend that no dividend be provided for the year ended 31 December 2019 (2018: Nil).

7. LIKELY DEVELOPMENTS

The Group will continue to pursue its strategy to further develop its exploration portfolio in California, USA, whilst also assessing any other viable global oil and gas exploration opportunities that are presented to the Board.

8. EVENTS SUBSEQUENT TO REPORTING DATE

Since reporting date, the spread of COVID-19 (coronavirus) has impacted global economies and the repercussions expected to be associated are as yet unknown. The Directors are assessing all planned expenditure for the coming months and determining what is capable of being deferred until a more appropriate time.

In conjunction with the above, subsequent to the reporting date, there has also been significant volatility in world oil and gas pricing, resulting in a material decline in oil and gas sales prices.

The scale and duration of these developments remains uncertain, but have potential to negatively impact upon the cash flows and financial position of the Group, as well as impact the Group's ability to raise capital or debt and the ability of the Group to continue as a going concern.

Other than the above, there have been no subsequent events of a material nature occurring.

9. ENVIRONMENTAL REGULATION

The Group is subject to significant environmental regulation in relation to its exploration activities. It aims to ensure that the highest standard of environmental care is achieved, and that it complies with all relevant environmental legislation. The Directors are not aware of any breaches during the period covered by this report.

10. SHARE OPTIONS

Unissued shares under options

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise price cents	Number of shares
31-Dec-20	5	42,000,000
30-Dec-20	0.5	5,000,000

All unissued shares are ordinary shares of the Company.

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

Further details in relation to the share-based payments to directors are included in the Remuneration Report.

Shares issued on exercise of options

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

Options expired

No options expired during the reporting period (31 December 2018: nil options expired).

11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the Company paid an insurance premium of $36,433 (2018: $34,424) to insure the Directors and Key Management of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS (continued)

The Group has agreed to indemnify each of the Directors and the Company Secretaries of the Company and its controlled entities, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors and Company Secretaries of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

No agreements have been entered into to indemnify the Group's auditors against any claims by third parties arising from their report on the Annual Financial Statements.

12. NON-AUDIT SERVICES

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of these non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the remuneration for non-audit services provided by the auditor of the Company, BDO Audit (WA) Pty Ltd, and its related practices during the year are set out below:

	2019 $	2018 $
Taxation services		
BDO Audit (WA) Pty Ltd		
Tax compliance services	8,938	9,430
Total remuneration for non-audit services	**8,938**	**9,430**

13. PROCEEEDINGS ON BEHALF OF THE GROUP

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

14. REMUNERATION REPORT - AUDITED

The Directors present the Company's 2019 Remuneration Report prepared in accordance with the Corporations Act 2001. The Report sets out the detailed remuneration information for Non-Executive Directors, Executive Directors and other Key Management Personnel (KMP) of the Group.

The report contains the following sections:

(a) Remuneration governance
(b) Executive remuneration strategy and framework
(c) Board and management changes
(d) Service contracts
(e) Non-executive director remuneration
(f) Key management personnel remuneration
(g) Analysis of bonuses included in remuneration
(h) Other KMP disclosures
(i) Voting and comments made at the Company's 2018 Annual General Meeting

(a) Remuneration governance

The remuneration of Directors and key management personnel is the responsibility of the Remuneration and Nomination Committee.

(b) Executive remuneration strategy and framework

Remuneration is referred to as compensation throughout this report.

Compensation levels for key management personnel of the Group are set to attract, retain and motivate appropriately qualified and experienced Directors and Executives. As the Group's principal activities during the year were new ventures and exploration / evaluation, measurement of remuneration policies against financial performance is not considered relevant. The measurement of remuneration policies considered a range of factors including budget performance, delivery of results and timely completion of development programmes.

The objective of the Group's reward framework is to ensure that remuneration policies and structures are fair and competitive. The Board ensures that remuneration satisfies the following criteria for reward:

- competitiveness and reasonableness;
- transparency;
- attracts and retains high calibre executives; and
- rewards capability and experience.

Executive remuneration mix
The remuneration of the Managing Director and other KMP can be structured as a mix of fixed remuneration and variable "at risk" remuneration through short-term and long-term incentive components.

Fixed compensation
Fixed compensation consists of base compensation plus employer contributions to superannuation funds (unless otherwise stated). Compensation levels are reviewed annually by the Board through a process that considers individual and overall performance of the Group and compares compensation to ensure it is comparable and competitive within the market in which the Group operates.

Fixed compensation is not "at risk" but is appropriately benchmarked and set with reference to role, responsibilities, skills and experience.

Performance-linked compensation

Performance-linked compensation can consist of both short-term and longer-term remuneration. Performance-linked remuneration is not based on specific financial indicators such as earnings or dividends as the Group is at the exploration and development stage. Vesting of long term incentives is based on the share price performance of the Group, which is considered an appropriate measure of the outcome of overall performance. There is no separate profit-share plan.

14. REMUNERATION REPORT – AUDITED (continued)

Long-term incentive

Long-term incentives (LTI) can comprise share options and/or performance rights (PR), which are granted from time to time to encourage sustained performance in the realisation of strategic outcomes and growth in shareholder value. Options and rights are granted for no consideration and do not carry voting rights or dividend entitlements.

The Company adopted an Employee Share Options Scheme (ESOS) effective 31 January 2017. Under the ESOS, the Company may grant options to Company eligible employees to motivate and reward their performance in their respective roles up to a maximum of 10% of the Company's total issued ordinary shares at the date of the grant. The fair value of share options granted is estimated using the Black-Scholes Simulation model.

The Company has awarded options to directors and consultants.

Consequences of performance on shareholder wealth

The overall level of key management personnel compensation takes into account the performance of the Company over a number of years, although no remuneration is directly linked with financial performance.

Financial performance in respect of the current financial year and the previous four financial years is detailed below:

Shareholder returns	2019	2018	2017	2016	2015
Total Comprehensive Loss for year ($)	(715,275)	(1,284,540)	(3,270,547)	(1,036,166)	(1,530,025)
Basic EPS (cents)	(0.06)	(0.16)	(0.49)	(0.23)	(0.77)
Share price at year end (cents)	0.3	0.2	1.20	2.40	0.5
Market capitalisation ($)	4,276,473	2,280,981	9,401,891	14,923,025	1,190,308
Net tangible (liabilities) / assets ($)	(124,171)	55,925	340,138	1,295,307	(79,484)
NTA Backing (cents)	(0.00)	0.01	0.04	0.21	(0.03)

During the financial years noted above, there were no dividends paid or other returns of capital made by the Company to shareholders.

The Group's financial performance is impacted by a number of factors. As the Group is still in the exploration phase of its operations, and as such does not generate revenue, the share price and thus the Company's market capitalisation is the only indicator of the Group's overall performance.

(c) Board and management changes

On 15 July 2019, Mr David McArthur resigned from the Board as a Non-executive Director.

On 26 November 2019, Mr David McArthur was appointed interim Managing Director and Mr Richard Lorentz was appointed Non-executive Director. Additionally, on this date, Mr Cosimo Damiano resigned as Managing Director and Mr Ian Tchacos resigned as Non-executive Director.

d) Service contracts

On appointment to the Board, all Non-Executive Directors enter into a letter of appointment with the Company specifying their functions and duties as a Director.

14. REMUNERATION REPORT – AUDITED (continued)

d) Service contracts (continued)

Executive remuneration and other terms of employment are formalised in service agreements. The service agreements outline the components of compensation paid to the Executives and key management personnel (KMPs) but do not prescribe how compensation levels are modified year by year. Compensation levels are reviewed each year to take into account cost of living changes, any change in the scope of the role performance by KMPs and any changes required to meet the principles of the compensation policy. The major provisions of the agreement relating to remuneration are set out below.

Name	Term of agreement	Employee notice period	Employer notice period	Base salary	Termination Benefit (ii)
David McArthur	Ongoing from 1 January 2017	12 months	12 months	$50,000 (i)	12 months' base

(i) Base salary is exclusive of superannuation and quoted as at the year ended 31 December 2019;

(ii) Termination benefits are payable upon early termination by the Company, other than for gross misconduct. They are equal to base salary for the notice period;

(e) Non-Executive Directors

Total compensation for all Non-Executive Directors, last voted upon by shareholders on 19 May 2011, is not to exceed $400,000 per annum and is based on comparative roles in the external market. The base fee for all Non-Executive Directors, including the Chairman, for the year ended 31 December 2019 was $36,000 per annum. Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed by the Remuneration and Nomination Committee and they do not receive cash performance related compensation.

In addition to their base fees, Non-Executive Directors may also receive payment for consultancy services at $1,500 per day plus reimbursable expenses for days worked over and above those expected to be worked in consideration of Non-Executive Directors fees. The contracts have a 12 months' termination clause.

14. REMUNERATION REPORT – AUDITED (continued)

(f) Key management personnel remuneration

Name		Short-term employee benefits			Post- employment benefits	Share based payments		
		Salary and fees (A) $	Non-monetary benefits (B) $	Total $	Superannuation $	Shares $	Options (C) $	Total $
Executive Directors								
Cosimo Damiano[1]	**2019**	**113,582**	**9,313**	**122,895**	**10,056**	**-**	**-**	**132,951**
	2018	159,817	8,606	168,423	13,014	-	-	181,437
David McArthur[2]	**2019**	**7,167**	**987**	**8,154**	**396**	**-**	**-**	**8,550**
	2018	-	-	-	-	-	-	-
Non-Executive Directors								
Chris Hodge	**2019**	**36,000**	**10,301**	**46,301**	**-**	**-**	**-**	**46,301**
	2018	36,000	8,606	44,606	-	-	-	44,606
David McArthur[2]	**2019**	**65,333**	**5,532**	**70,865**	**4,354**	**-**	**-**	**75,219**
	2018	86,000	8,606	94,606	4,750	-	-	99,356
Ian Tchacos[3]	**2019**	**30,000**	**9,313**	**39,313**	**-**	**-**	**-**	**39,313**
	2018	36,000	8,606	44,606	-	-	-	44,606
Richard Lorentz[4]	**2019**	**3,555**	**987**	**4,542**	**-**	**-**	**-**	**4,542**
	2018	-	-	-	-	-	-	-
Total key management personnel remuneration	**2019**	**255,637**	**36,433**	**292,070**	**14,086**	**-**	**-**	**306,876**
	2018	317,817	34,424	352,241	17,764	-	-	370,005

[1] Cosimo Damiano resigned as Managing Director 26 November 2019.
[2] David McArthur resigned as Non-executive Director 15 July 2019. Appointed interim Managing Director 26 November 2019.
[3] Ian Tchacos resigned as Non-executive Director 26 November 2019.
[4] Richard Lorentz appointed as Non-executive Director 26 November 2019.

14. REMUNERATION REPORT – AUDITED (continued)

(f) Key management personnel remuneration (continued)

Notes in relation to the table of Directors' remuneration

(A) Includes movements in annual leave accrual for Executive Director.

During the reporting period certain key management persons invoiced for commercial, arms-length consulting services in addition to duties required as Directors. The total quantum of these transactions as disclosed in note 6.3 of the notes to the consolidated financial statements was:

- Chris Hodge $4,500 (2018: $9,750)
- David McArthur $96,000 (2018: $88,000)
- Ian Tchacos $nil (2018: $nil)

(B) Comprises Directors and Officers insurance premiums.

(C) The fair value of options granted was determined using the Black-Scholes method at grant date. No options were issued to Directors during 2019 (2018: nil).

(g) Analysis of bonuses included in remuneration

No short-term incentive cash bonuses have been awarded as remuneration to Directors of the Company for year ended 31 December 2019 (2018: nil).

(h) Other KMP disclosures

All options refer to options over ordinary shares of Xstate Resources Limited, which are exercisable on a one-for-one basis under the Employee Share Option Scheme.

Mr Damiano received 138,888,889 Gasfields Limited (**ASX:GFS**) shares for nil consideration as a component of his payment of outstanding salary upon resignation as disclosed in note 6.3 of the notes to the consolidated financial statements. The shares had nil value at disposal date and therefore are not reflected in the KMP remuneration table.

Options over equity instruments granted as compensation

During the reporting period, no options were issued to Directors of the Company (2018: nil).

Exercise of options granted as compensation

During the reporting period, no shares were issued on the exercise of options previously granted as compensation.

Options over equity instruments

The movement during the reporting period, by number of options over ordinary shares of Xstate Resources Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 January 2019	Granted	Balance upon appointment / resignation	Held at 31 December 2019	Vested and exercisable at 31 December 2019
Executive Directors					
Cosimo Damiano	13,000,000	-	13,000,000	N/A	N/A
David McArthur	9,000,000	-	-	9,000,000	9,000,000
Non-executive Directors					
Chris Hodge	9,000,000	-	-	9,000,000	9,000,000
Ian Tchacos	9,000,000	-	9,000,000	N/A	N/A
Richard Lorentz	-	-	-	-	-

14. REMUNERATION REPORT – AUDITED (continued)

(h) Other KMP disclosures (continued)

Movements in shares

The movement during the reporting period in the number of ordinary shares in Xstate Resources Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 January 2019	Purchases	Sales	Balance upon appointment / resignation	Held at 31 December 2019
Executive Directors					
Cosimo Damiano	20,900,000	-	-	20,900,000	N/A
David McArthur	24,993,699	-	-	-	24,993,699
Non-executive Directors					
Chris Hodge	12,617,339	-	-	-	12,617,339
Ian Tchacos	9,532,019	-	-	9,532,019	N/A
Richard Lorentz	N/A	-	-	-	-

(i) Voting and comments at the Company's 2019 Annual General Meeting

The Company received 94.37% of "for" votes on its remuneration report for the 31 December 2018 financial year. The Company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration practices.

THIS IS THE END OF THE REMUNERATION REPORT – AUDITED.

15. 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 for the financial year ended 31 December 2019.

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

D McArthur

DAVID MCARTHUR

Interim Managing Director

Signed at Perth, Western Australia this 30th day of March 2020.

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DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF XSTATE RESOURCES LIMITED

As lead auditor of Xstate Resources Limited for the year ended 31 December 2019, 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 30 March 2020

CORPORATE GOVERNANCE STATEMENT

The 2019 Corporate Governance Statement is dated as at 31 December 2019 and reflects the corporate governance practices in place throughout the 2019 financial year.

Xstate Resources Limited ("**the Company**") is committed to achieving and demonstrating the highest standards of Corporate Governance. The Board continues to review the framework and practices to ensure that they meet the best interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. Additionally, they comply with the 3rd edition of the ASX Corporate Governance Principles and Recommendations. A copy of the Corporate Governance policies is contained on the Company's website.

Board of Directors

Role of the Board

The primary responsibilities of the Board of Directors are set out in a written policy and include:

- Establishment of long-term goals of the Group and strategic plans to achieve these goals;
- Monitoring the achievement of these goals;
- Review of the management accounts and reports to monitor the progress of the Group;
- Review and adoption of budgets for the financial performance of the Group and monitoring the results on a regular basis to assess performance;
- Review and approval of the annual and interim financial reports;
- Nominating and monitoring the external auditor;
- Approving all significant business transactions;
- Appointing and monitoring senior management;
- All remuneration, development and succession issues;
- Ensuring the Group has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities;
- Overseeing the process for making timely and balanced disclosure of all material information that a reasonable person would expect to have a material effect on the price or value of the Company's securities;
- Ensuring that the Company has a suitably qualified Company Secretary who shall be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board; and
- Ensuring that the Company reports on its measurable objectives in relation to gender diversity and assesses annually both the objectives and progress in achieving gender diversity.

The Board evaluates this policy on an ongoing basis.

Board composition

The Directors' Report contains details of the Directors' skills, experience and education. The Board seeks to establish a Board that consists of Directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Group's business with excellence. To maintain this, the Group's policy is that Executive Directors should serve at least 3 years. At the completion of the first 3 years, the position of the Director is reviewed to ascertain if circumstances warrant a further term.

The specific skills that the Board collectively bring to the Company include:

- Industry experience / technical qualification;
- Commercial experience;

Board composition (continued)

- Public company experience;
- Analytical expertise;
- Financial expertise;
- Risk management experience;
- Strategic planning experience;
- Strategic leadership experience;
- Corporate Governance expertise;
- Communications experience; and
- Inter personal experience.

The Board comprises an Executive Director and two Independent Non-executive Directors. A written agreement is entered into with each Director and Senior Executive of the Company setting out the terms of their employment.

The chair of each of the sub committees formed by the Board has specific skills in the area for which they are responsible.

The Board does not have a Director with legal experience, as any legal work required is outsourced to external lawyers.

Directors' details are set out in the Directors' Report.

The Board, through the Remuneration and Nomination Committee, is primarily responsible for identifying potential new Directors and has the option to use an external consulting firm to identify and approach possible new candidates for Directorship. When a vacancy exists, or where it is considered that the Board would benefit from the services of a new Director with particular skills, candidates with the appropriate experience, expertise and diversity are considered. Each incumbent Director is given the opportunity to meet with each candidate on a one to one basis. The full Board then appoints the most suitable candidate.

The Board undertakes appropriate checks before appointing a person as a Director or putting forward to shareholders a candidate for election as a Director.

The Board ensures that shareholders are provided with all material information in the Board's possession relevant to a decision on whether or not to elect or re-elect a Director.

The appointment of the Directors must be approved by the majority of the Shareholders at the first Annual General Meeting after the appointment.

Retirement and re-election of Directors

The Constitution of the Company requires one third of Directors (or the number nearest one third, rounded up), other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of Directors to retire at that Annual General Meeting. Retiring Directors are eligible for re-election by Shareholders. No Director (other than the Managing Director) shall hold office for a period of three years without seeking re-election.

Directors who have been appointed by the Board are required to retire from office at the Annual General Meeting following their appointment and are not taken into account in determining the number of Directors to retire at that Annual General Meeting. Retiring Directors are eligible for re-election by Shareholders.

Independence of Directors

The Board has reviewed the position and association of each of the Directors in the office at the date of this report and considers that two Directors are independent. In considering whether a Director is independent, the Board has regard to the independence criteria in ASX Corporate Governance Principles and Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence

Independence of Directors (continued)

of new Directors upon appointment and reviews their independence, and the independence of the other Directors, as appropriate. The Board considers that Messrs Chris Hodge and Richard Lorentz meet the criteria in Principle 2. They have no material business or contractual relationship with the Group, other than as Directors, and no conflicts which could interfere with the exercise of independent judgement. Accordingly, they are considered to be independent.

Director education

All new Directors complete an induction process. The Non-Executive Directors are given every opportunity to gain a better understanding of the business, the industry, and the environment within which the Group operates, and are given access to continuing education opportunities to update and enhance their skills and knowledge. The Board are specifically provided the opportunity to enhance their financial, regulatory and compliance skills in relation to public companies through external courses.

Independent professional advice

With prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice at the Group's expense concerning any aspect of the Group's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

Board performance review

The performance of all Directors is assessed through review by the Board as a whole of a Director's attendance at and involvement in Board meetings, their performance and other matters identified by the Board or other Directors. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a Director's performance.

The Directors conducted an internal performance evaluation of the Members of the Board during the reporting period. External advisers were not used.

Director remuneration

Details of the Group's remuneration policies are included in the "Remuneration Report" section of the Directors Report.

Non-executive Directors will be remunerated by cash payments (including statutory superannuation) and may receive equity performance incentives, but they will not be provided with any benefits for ceasing to be a Director.

Executive Directors will be remunerated by fixed cash remuneration and may receive equity performance-based remuneration, subject to obtaining all regulatory approvals from shareholders. A reasonable period of notice of termination is required and is detailed in the Executive's employment contract.

Managing Business Risk

The Group maintains policies and practices designed to identify and manage significant risks including:

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Group's business plan;
- corporate strategy guidelines and procedures to review and approve the Group's strategic plans; and
- establish and continuously assess a Group Risk profile which identifies all significant risks to the group and controls in place to minimise or mitigate risk; and
- insurance and risk management programs which are reviewed by the board.

The Board reviews these systems and the effectiveness of their implementation annually and considers the management of risk at its meetings. The Board may consult with the Group's external auditors on external risk matters or other appropriately qualified external consultants on risk generally, as required. The entity’s risk management framework was reviewed by the Board during the financial year.

The Board’s review of business risk is also based on reports from the Audit and Risk Management Committee.

Managing Business Risk (continued)

The Managing Director and Chief Financial Officer annually provide a formal statement to the Board that in all material respects and to the best of their knowledge and belief:

- the Group's financial reports present a true and fair view of the Group's financial condition and operational results and are in accordance with relevant accounting standards; and
- the Group's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

The Company assesses its exposure to economic, environmental and social sustainability risks as part of the Group Risk profile. The Board assesses the likely impact of changes and implements strategies to minimise exposure to these specific risks. The Board does not believe it has any material exposure to economic, environment and social sustainability risks.

Due to its size and activities the Company does not have an internal audit function. The Board has determined that the established internal controls for the Company, combined with the work of the Audit and Risk Management Committee, at this stage satisfactorily address the function that would otherwise be dealt with by an internal audit function.

Internal Controls

Procedures have been established at the Board and Executive management levels that are designed to safeguard the assets and interests of the Group, and to ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures. To ensure these established procedures are being followed, the Directors:

- ensure appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with Board requirements; and
- conduct a detailed review of published accounts.

Board Committees

Audit and Risk Management Committee

The role of the Audit and Risk Management Committee is documented in a Charter which is approved by the Board of Directors. In accordance with this Charter, all members of the Committee must be Non-Executive Directors.

The primary role of the Audit and Risk Management Committee is to:

- Assist the Board in fulfilling its overview of the audit process;
- Assist the Board in overviewing financial reporting;
- Assist the Board in fulfilling its overview of the systems of internal control which the Board and management have established;
- Monitor, review and recommend the adoption of the financial statements of the Company;
- Regularly review the adequacy of accounting, internal controls, reporting and other financial management systems and practices of the Company;
- Review the financial report and other financial information distributed externally;
- Review any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- Improve the quality of the accounting function;
- Review audit reports to ensure that if major deficiencies or breakdowns in controls or procedures are identified, appropriate and prompt remedial action is taken by management;
- Review the nomination and performance of the auditor;
- Liaise with external auditors and ensure that the annual and half-year statutory audits are conducted in an effective manner;
- Monitor the establishment of appropriate ethical standards;

Audit and Risk Management Committee (continued)

- Monitor the procedures in place to ensure compliance with the *Corporations Act 2001*, Australian Accounting Standards and Australian Securities Exchange Listing Rules and all other regulatory requirements;
- Address any matters outstanding with the auditors, the Australian Taxation Office, the Australian Securities and Investments Commission, the Australian Securities Exchange and financial institutions; and
- Improve the quality of the accounting function.

The members of the Audit and Risk Management Committee for the Company at the date of this report were:

- Mr Chris Hodge – Independent Non-executive Director (Chair)
- Mr Richard Lorentz – Independent Non-executive Director

The auditors and the Managing Director are invited to attend Audit Committee meetings at the discretion of the Committee. The Committee met two times during the year.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee operates in accordance with its Charter. The main responsibilities of the Remuneration Committee are:

- Determine remuneration policies and remuneration of Directors;
- Determine remuneration and incentive policies of Key Executives;
- Determine the Group recruitment, retention and termination policies and procedures for senior management;
- Determine and review incentive schemes;
- Ensure all Directors and senior executives have a written agreement setting out the terms of their appointment;
- Evaluate senior executive performance on an annual basis. As the group had no executives not on the Board of Directors, there was no requirement during the 2019 financial year;
- Determine and review superannuation arrangements of the Group;
- Determine and review professional indemnity and liability insurance for Directors and senior management;
- Review the Board composition to ensure the Board has the correct balance of skills and expertise;
- Appointment of the Managing Director and the Company Secretary;
- Approve the recommendation for the appointment of key management personnel presented to the Committee by the Managing Director;
- Performance appraise the Board members and the Managing Director;
- Succession planning for Board members and the Managing Director;
- Approve the recommended succession planning for key management personnel presented to the Committee by the Managing Director; and
- Identify, evaluate and recommend candidates for the Board, the position of Managing Director and the position of Company Secretary.

If required, the committee can seek independent external advice from consultants with specific industry experience relevant to the Company's remuneration assessment. External advice was not obtained during the 2019 year.

Specific policies and procedures regarding remuneration determination are contained within the Directors Report.

The members of the Remuneration and Nomination Committee for the Company at the date of this report were:

- Mr Chris Hodge – Independent Non-executive Director (Chair)
- Mr Richard Lorentz – Independent Non-executive Director

The Committee did not have a specific need to meet during the year.

Ethical Standards

Code of Conduct

In pursuit of the highest level of ethical standards, the Group has adopted a Code of Conduct which establishes the standards of behaviour required of Directors and employees in the conduct of the Group's affairs. This code is provided to all Directors and employees. Unethical behaviour is to be reported to the Group's Managing Director (or in his absence, the Chairman) as soon as possible.

The Code of Conduct is based on respect for the law, and acting accordingly, dealing with conflicts of interest appropriately, using the consolidated entity's assets responsibly and in the best interests of the Company, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

Trading in the Company's Securities by Directors and Employees

The Board has adopted a policy in relation to dealings in the securities of the Group which applies to all Directors and employees. Under the policy, Directors are prohibited from short-term or "active" trading in the Group's securities and Directors and employees are prohibited from dealing in the Group's securities whilst in the possession of price sensitive information. The Company's Managing Director (or in his place the Chairman) must be notified of any proposed transactions in the Company’s shares.

This policy is provided to all Directors and employees. Compliance with it is reviewed on an on-going basis in accordance with the Company's risk management systems.

Continuous Disclosure

The Group has in place a continuous disclosure policy, a copy of which is provided to all Group officers and employees who may from time to time be in possession of undisclosed information that may be material to the price or value of the Group's securities.

The continuous disclosure policy aims to ensure timely compliance with the Company's continuous disclosure obligations under the Corporations Act 2001 and ASX Listing Rules and to ensure officers and employees of the Group understand these obligations.

The procedure adopted by the Group is essentially that any information which may need to be disclosed must be brought to the attention of the Chairman, who, in consultation with the Board (where practicable) and any other appropriate personnel (including external advisors if deemed appropriate) will consider the information and whether disclosure is required. If disclosure is deemed necessary, an appropriate announcement will be prepared for release to the market as soon as possible.

At least once every 12 months’ period, the Board will review the Company's compliance with this continuous disclosure policy and update it from time to time, if necessary.

Shareholders

The Board aims to ensure that Shareholders are kept fully informed of all major developments affecting the Group. Information is communicated to Shareholders as follows:

- As the Company is a disclosing entity, regular announcements are made to the Australian Securities Exchange in accordance with the Group's disclosure policy, including the half-year review, the year-end audited accounts and an Annual Report;
- The Board ensures the Annual Report includes relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments;
- Shareholders are advised in writing of key issues affecting the Group by effective use of the Group's share registry or electronically via the website;
- Shareholders are provided the opportunity to receive communications electronically through the Company’s share registry;
- Any proposed major changes in the Group's affairs are submitted to a vote of Shareholders, as required by the Corporations Act 2001 and the Australian Securities Exchange Listing Rules;

Shareholders (continued)

- The Board encourages full participation of Shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Group's strategies and goals. All Shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Group;
- The external auditor is requested to attend the Annual General Meetings to answer any questions concerning the audit and the content of the auditor's report; and
- The board seeks feedback from proxy advisers to assess the appropriateness and adequacy of its reporting to shareholders.

The Board reviews this policy and compliance with it on an ongoing basis.

Diversity Policy

The Group is committed to workplace diversity at all levels and recognises the benefits arising from employee and Board diversity. The benefits include a broader pool of high quality employees, improved employee retention, accessing different perspectives and ideas, and benefitting from all available talent.

The Group recognises that diversity includes matters of age, disability, ethnicity, marital and family status, religion and culture, sexual orientation and gender identity.

The Group strives to:

- Recruit and manage on the basis of an individual's competence, qualification and skills and performance;
- Create a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff;
- Appreciate and respect the unique aspects that an individual brings to the workplace;
- Where possible and practicable, increase participation and employment opportunities for indigenous people;
- Create a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives through improved awareness of the benefits of workplace diversity and successful management of diversity, and at all times recognising that employees may have restrictions placed on them by domestic responsibilities outside the workplace;
- Take action to prevent discrimination, harassment, vilification or victimisation;
- Create awareness in all staff of their rights and responsibilities with regards to fairness, equity and respect for all aspects of diversity; and
- Identify and implement programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees, and to offer employees opportunities to reach management levels with the Group.

The Board is committed to workplace diversity and has an objective of providing a balanced representation of employees from a diversity stance across the Group. The Board is also has implemented strategies to support the framework and objectives of the Diversity Policy and is responsible for monitoring the progress of the measurable objectives through various monitoring, evaluation and reporting mechanisms. For the 2019 financial year the Boards' objectives were met by the Group. The Board assesses annually the progress and achievement of the objectives.

Percentage details	**Women**	**Men**
Women and Men employed within the Group	-	100%
Women and Men at senior management level	-	100%
Women and Men employed at Board level	-	100%
Women and Men employed by Corporate services provider	60%	40%

ASX Corporate Governance principles and recommendations not followed - "if not, why not" approach

Pursuant to the ASX Listing Rules, the Company advises that it does not comply with the following Corporate Governance Principles and Recommendations, issued by the ASX Corporate Governance Council. Reasons for the Company's non-compliance are detailed below.

Recommendation 2.5

The chair of the board of a listed entity should be an Independent Director

Recommendation 2.1 / 8.1

The Remuneration and Nomination Committee should be structured so that it:

- *consists of a majority of Independent Directors*
- *is chaired by an independent chair*
- *has at least three members*

Recommendation 4.1 / 7.1

The Audit and Risk Management Committee should be structured so that it:

- *consists only of Non-Executive Directors*
- *consists of a majority of Independent Directors*
- *is chaired by an independent chair, who is not chair of the Board*
- *has at least three members*

While the ASX principles recommend that the chair of a Board should be an Independent Director, given the size, scale and nature of the Company's business, the Board does not consider the non-compliance with this ASX principle to be materially detrimental to the Company. There is no formal Chairman of the Board currently allocated.

While the ASX Principles recommend an ideal structure for the Audit and Risk Management and Remuneration and Nomination Committees, they recognise that for smaller Boards it may not be possible to implement such a structure.

Given the size, scale and nature of the Company's business, the Board does not consider the non-compliance with these ASX Principles to be materially detrimental to the Company.

This statement is current as at 31 December 2019 and has been approved by the Board.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 $	2018 $
Assets			
Cash and cash equivalents	4.1	540,495	994,442
Trade and other receivables	4.2	-	39,599
Prepayments		17,291	19,662
Financial Assets held at FVTPL	4.3	-	138,889
Deposits and bonds		870	823
Total current assets		**558,656**	**1,193,415**
Property, plant and equipment		1,691	223
Total non-current assets		**1,691**	**223**
Total assets		**560,347**	**1,193,638**
Liabilities			
Trade and other payables	4.4	(457,100)	(767,104)
Employee benefits		(150,353)	(315,637)
Total current liabilities		**(607,453)**	**(1,082,741)**
Site restoration provision	3.1	(58,083)	(54,972)
Total non-current liabilities		**(58,083)**	**(54,972)**
Total liabilities		**(665,536)**	**(1,137,713)**
Net (liabilities) / assets		**(105,189)**	**55,925**
Equity			
Share capital	5.1	49,560,932	49,006,771
Reserves		486,019	499,697
Accumulated losses		(50,152,140)	(49,450,543)
Total equity attributable to equity holders of the Company		**(105,189)**	**55,925**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 $	2018 $
Revenue from operating activities			
Other income	2.2	569,292	528,380
Expenses			
Other operating expenses		(179,380)	(217,647)
Exploration expenditure		(144,268)	(437,521)
Revaluation of Financial Assets held at FVTPL	4.3	(138,889)	(111,111)
Personnel expenses	2.3	(306,876)	(370,005)
Business development		(58,439)	-
Administrative expenses		(49,508)	(68,687)
Professional fees		(367,146)	(582,822)
Finance expenses		(1,096)	-
Other expenses		(20,171)	(24,976)
Foreign exchange (loss) / gain		(2,562)	16,689
Other losses		-	(8,449)
Loss before income tax expense		**(699,043)**	**(1,276,149)**
Income tax expense	2.4	(2,554)	(4,526)
Loss for the year		**(701,597)**	**(1,280,675)**
Other Comprehensive Income / (Loss)			
Exchange differences on translation of foreign operations		(13,678)	(3,865)
Total Comprehensive Loss for the year		**(715,275)**	**(1,284,540)**
Loss per share (cents per share)			
Basic and diluted (cents per share)	2.5	(0.06)	(0.16)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Foreign currency translation reserve	Options reserve	Accumulated losses	Total
	$	$	$	$	
Balance at 1 January 2019	49,006,771	42,281	457,416	(49,450,543)	**55,925**
Total comprehensive income for the year					
Loss for the year	-	-	-	(701,597)	**(701,597)**
Other comprehensive income for the year					
Foreign exchange translation difference on foreign operations	-	(13,678)	-	-	**(13,678)**
Total other comprehensive loss for the year	**-**	**(13,678)**	**-**	**-**	**(13,678)**
Total comprehensive loss for the year	**-**	**(13,678)**	**-**	**(701,597)**	**(715,275)**
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Issue of ordinary shares	570,000	-	-	-	**570,000**
Capital raising costs	(15,839)	-	-	-	**(15,839)**
Total contributions by and distributions to owners	**554,161**	**-**	**-**	**-**	**554,161**
Balance at 31 December 2019	**49,560,932**	**28,603**	**457,416**	**(50,152,140)**	**(105,189)**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Translation reserve	Options Reserve	Accumulated Losses	Total
	$	$	$	$	
Balance at 1 January 2018	48,018,660	46,146	445,200	(48,169,868)	**340,138**
Total comprehensive income for the year					
Loss for the year	-	-	-	(1,280,675)	**(1,280,675)**
Other comprehensive income for the year					
Foreign exchange translation difference on foreign operations	-	(3,865)	-	-	**(3,865)**
Total other comprehensive loss for the year	**-**	**(3,865)**	**-**	**-**	**(3,865)**
Total comprehensive loss for the year	**-**	**(3,865)**	**-**	**(1,280,675)**	**(1,284,540)**
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Issue of ordinary shares	1,071,000	-	-	-	**1,071,000**
Share-based payment transactions	-	-	12,216	-	**12,216**
Capital raising costs	(82,889)	-	-	-	**(82,890)**
Total contributions by and distributions to owners	**988,111**	**-**	**12,216**	**-**	**1,000,326**
Balance at 31 December 2018	**49,006,771**	**42,281**	**457,416**	**(49,450,543)**	**55,925**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Receipts from customers		-	28,050
Receipts from legal proceedings		500,000	-
Cash paid to suppliers and employees		(1,078,963)	(452,982)
Payments for exploration, evaluation and development		(402,497)	(264,799)
Interest paid		(1,046)	-
Interest received		865	116
Income taxes paid		(2,554)	(4,526)
Net cash used in operating activities	4.1b	**(984,195)**	**(694,141)**
Cash flows from investing activities			
Payments for property, plant and equipment		(2,098)	-
Proceeds from sale of subsidiary*	2.2	-	115,817
Net cash (used in) / from investing activities		**(2,098)**	**115,817**
Cash flows from financing activities			
Proceeds from issue of shares and options	5.1	570,000	971,000
Payment of capital raising costs		(3,189)	(73,674)
Repayment of borrowings		(36,485)	-
Net cash from financing activities		**530,326**	**897,326**
Net (decrease) / increase in cash and cash equivalents		(455,967)	319,002
Cash and cash equivalents at 1 January		994,442	656,180
Effect of exchange rate fluctuations on cash held		2,020	19,260
Cash and cash equivalents at 31 December	4.1a	**540,495**	**994,442**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

* Non-refundable proceeds from terminated sale agreement for 100% of share capital of XGas LLC during FY 2018. As this transaction was terminated, XGas remained a subsidiary of Xstate Resources Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 1 BASIS OF PREPARATION

Xstate Resources Limited presents its financial statements in a format and style that is relevant and clear to shareholders and other users. In preparing the 2019 financial statements, we have grouped notes into sections under six key categories:

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

Significant accounting policies specific to one note are included within that note and where possible, wording has been simplified to provide clearer commentary on the financial report of the Group. Accounting policies determined non-significant are not included in the financial statements. There have been no changes to the Group's accounting policies that are no longer disclosed in the financial statements.

1.1 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 Group is primarily involved in oil and natural gas exploration in the United States of America.

The consolidated financial statements of the Group as at and for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and were authorised for issue by the Board of Directors on 30 March 2020. The financial statements are general purpose financial statements which:

- have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards ("AASBs") and other authoritative pronouncements of the Accounting Standards Board ("AASB"). The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- have been prepared on a historical cost basis, except for share-based payments and financial assets which are measured at fair value. The basis of measurement is discussed further in the individual notes;
- are presented in Australian Dollars, being the Company's functional currency;
- adopt all new and revised Australian Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 January 2019. Refer to note 6.9 for further details; and
- do not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but not yet effective. Refer to note 6.10 for further details.

1.2 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.

At balance date, the Group had net liabilities of $105,189 (2018: net assets of $55,925), and a working capital deficit of $48,797 (2018: working capital surplus of $110,674). During the year ended 31 December 2019, the Group recorded cash outflows from Operating Activities of $984,195 (2018: $694,141), cash outflows from Investing Activities of $2,098 (2018 inflow: $115,817) and inflows from Financing Activities of $530,236 (2018: $897,326). The ability for the entity to continue as a going concern is dependent on securing additional funding through raising additional capital to continue to fund its operational and exploration activities.

1.2 GOING CONCERN (continued)

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 Company acknowledges the need to raise additional funds in the coming year to meet its anticipated operating expenditures and planned exploration commitments for working interests in the Sacramento Basin. The Directors are confident that this is achievable through a combination of the following:

a) Via successful capital raising with either existing shareholders or a placement to sophisticated investors; or
b) Via successful sale of rights to exploration assets held by the Group.

The Directors of the Company have agreed to defer payments due to them until such a time as the Group is financially capable to do so, and that Director fees will continue to be accrued. As at reporting date, Mr McArthur and his related parties are owed $220,000, and Mr Hodge and his related parties are owed $42,200.

Since reporting date, the spread of COVID-19 (coronavirus) has impacted global economies and the repercussions expected to be associated are as yet unknown. The Directors are assessing all planned expenditure for the coming months and determining what is capable of being deferred until a more appropriate time.

In conjunction with the above, subsequent to the reporting date, there has also been significant volatility in world oil and gas pricing, resulting in a material decline in oil and gas sales prices.

The scale and duration of these developments remains uncertain, but have potential to negatively impact upon the cash flows and financial position of the Group, as well as impact the Group's ability to raise capital or debt and the ability of the Group to continue as a going concern.

Should the Group be unsuccessful in raising funds, 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. In this instance, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Group not continue as a going concern.

1.3 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

1.4 FOREIGN CURRENCY TRANSLATION

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

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

1.5 IMPAIRMENT

Non-financial assets
At each reporting date, the Group reviews the carrying amount of its non-financial assets, other than DTA's, to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset exceeds it recoverable amount. Impairment losses are recognised in profit or loss.

1.6 ACCOUNTING JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment are included in the following notes:

Judgements

- *Note 1.2* *Going concern*

Estimates and assumptions

- *Note 2.4* *Income tax expense*
- *Note 4.2* *Trade and Other Receivables*
- *Note 4.3* *Financial Assets held at Fair Value through Profit or Loss*
- *Note 6.1* *Share-based payments*

Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- ***Level 1***: Quoted prices in active markets for identical items (unadjusted)
- ***Level 2***: Observable direct or indirect inputs other than Level 1 inputs
- ***Level 3***: Unobservable inputs (i.e. not derived from market data)

The classification of an item into the above levels is based on the lowest level of inputs used that has a significant effect on the fair value measurement of the item. Transfer of items between levels are recognised in the period they occur.

The Group currently only measures Financial Assets held at Fair Value through Profit or Loss at fair value. For more detailed information in relation to the fair value measurement, please refer to note 4.3.

SECTION 2 RESULTS FOR THE YEAR

This section focuses on the results and performance of the Group, with disclosures including segmental information, components of the operational result, taxation and loss per share.

Key estimates and assumptions in this section

Deferred taxation
The Group has unrecognised carry forward tax losses which can be utilised against future taxable profits. Given that the Group is not yet in production, the tax asset has not yet been recognised.

2.1 OPERATING SEGMENTS

Information about reportable segments

The Group has identified its operating segments on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

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

Reportable segments disclosed are based on aggregating leases where the evaluation and exploration interests are considered to form a single project. This is indicated by:

- having the same ownership structure;
- exploration being focused on the same petroleum resource or type of petroleum resource; and
- exploration programs targeting the leases as a group, indicated by the use of the same exploration team, shared geological data and knowledge across the leases.

Unless otherwise stated, all amounts reported to the Board of Directors as the chief decision maker with respect to operating leases, are determined in accordance with *AASB 8 Operating Segments*.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2019.

2.2 OTHER INCOME

Accounting Policy

Other income is recognised when the amount can be reliably measured and control of the right to receive the income be passed to the Group.

Finance income
Interest is recognised using the effective interest method.

	Note	2019 $	2018 $
Other operating income	(i)	68,427	131,173
Income from legal proceedings	(ii)	500,000	-
Finance income		865	117
Other income	(iii)	-	397,090
		569,292	**528,380**

(i) A by-product of exploration leases acquired in the Capay and Los Medanos gas fields is a working interest in minor gas production rights in the Sacramento Basin onshore California.

2.2 OTHER INCOME (continued)

(ii) Xstate entered into a Forbearance to Sue Agreement with Hong Hung Thiam (**Hong**) in February 2019. Under the Forbearance to Sue Agreement, Hong agreed to pay A$500,000 to Xstate across five instalments between February and May 2019.

(iii) Xstate received several non-refundable deposits totalling US$89,150 (A$115,817) from Gasfields Limited (**ASX:GFS**) (formerly Raven Energy Limited [**ASX:REL**]) during the year for the right to purchase Xstate's rights to XGas LLC, the ultimate holder of rights to a 10% working interest in the Dempsey 1-15 well and related production and infrastructure in the Dempsey gas project.

In addition to cash consideration, the Company received 138,888,889 fully paid ordinary shares in GFS at a value of $0.0018 per share for a total consideration of A$250,000 to extend settlement of sale of assets on 31 August 2018.

The XGas LLC sale transaction was terminated by Xstate on 1 November 2018 due to Gasfields being in default of the Deed of Variation executed by both parties on 17 August 2018. The amounts received had been deemed under the transaction agreement as non-refundable deposits and were therefore retained by the Company despite the termination of the transaction.

In addition to the funds received from the XGas transaction, Xstate received A$30,000 in retainer fees from Gasfields in relation to provision of services by MD Cosimo Damiano for gas exploration advisory. The agreement for provision of services had a retainer value of $10,000 per month for a minimum of 3 months. After the initial 3-month period, this service was also terminated in conjunction with the XGas sale.

2.3 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

Accounting Policy

Short-term employee benefits

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

Other long-term employee benefits

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

Share-based payments

The policy relating to share-based payments is set out in note 6.1.

The table below sets out personnel costs expensed during the year.

	Note	2019 $	2018 $
Directors remuneration	6.3	306,876	370,005
Other wages and salaries		-	-
Other associated personnel expenses		-	-
		306,876	**370,005**

2.4 INCOME TAX EXPENSE

Accounting Policy

Income tax expense comprises current and deferred tax. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities. Current tax is based on tax rates enacted or substantively enacted at the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used for calculating taxable profits. Deferred tax balances are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set-off.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probably that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on substantively enacted rates at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(a) Amounts recognised in profit or loss

	2019 $	2018 $
Current tax expense / (benefit)		
Current period	(58,564)	(85,427)
Adjustment for prior periods	2,554	4,526
Deferred tax benefit		
Origination and reversal of temporary differences	58,564	85,427
Total income tax expense	**2,554**	**4,526**

2.4 INCOME TAX EXPENSE (continued)

(b) Reconciliation of effective tax rate

	2019 $	2018 $
Loss for the period	(701,597)	(1,280,675)
Total income tax expense	2,553	4,526
Loss excluding income tax	**(699,044)**	**(1,276,149)**
Income tax using the Group's domestic tax rate of 27.5% (2018: 27.5%)	(192,237)	(350,941)
Non-deductible expenses	179,273	212,576
Adjustment for prior periods	2,554	4,526
Timing differences not brought to account	(45,600)	52,939
Tax losses not brought to account	58,564	85,426
	2,554	**4,526**
Tax Losses		
Unused tax losses for which no deferred tax asset has been recognised	**5,325,273**	**3,368,520**
Potential tax benefit at 27.5% (2018: 27.5%)	**1,464,450**	**926,343**

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits of up to $1,464,450 (2018: $926,343) attributed to tax losses have not been brought to account because the directors do not believe it is appropriate to regard realisation of the future income tax benefits as probable.

The benefit of these tax losses will only be obtained if:

i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
ii) the conditions for deductibility imposed by tax legalisation continue to be complied with;
iii) no changes in tax legislation adversely affect the Group in realising the benefit; and
iv) satisfaction of either the continuity of ownership or the same business test.

2.4 INCOME TAX EXPENSE (continued)

(c) Unrecognised deferred tax assets and liabilities

Deferred tax assets (DTAs) and liabilities have not been recognised in respect of the following items:

	2019 $	2018 $
Employee benefits	41,347	86,800
Carry forward tax losses	1,464,450	926,344
Other	1,048	1,048
DTAs not brought to account	**1,506,845**	**1,014,192**

There were no unrecognised deferred tax liabilities.

2.5 LOSS PER SHARE

(a) Basic loss per share

Earnings / (loss) per share (EPS) is the amount of post-tax profit or loss attributable to each share.

The calculation of basic loss per share at 31 December 2019 has been based on the loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

Diluted EPS takes into account the dilutive effect of all potential ordinary shares, being share options on issue.

Loss per share attributable to ordinary shareholders

	2019	2018
Net loss attributable to ordinary shareholders - $	(701,597)	(1,280,675)
Issued ordinary shares at 1 January	1,140,490,898	783,490,897
Effect of shares issued	22,643,836	41,411,872
Weighted average number of ordinary shares at 31 December	**1,163,134,734**	**824,902,769**
Basic loss per share (cents)	(0.06)	(0.16)
Diluted loss per share (cents) *	(0.06)	(0.16)

* At 31 December 2019, 47,000 000 options (2018: 47,000,000 options) were excluded from diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

SECTION 3 ASSETS AND LIABILITIES SUPPORTING EXPLORATION AND EVALUATION

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

Key estimates and assumptions in this section

Site restoration
Provisions for the costs of rehabilitation, decommissioning and restoration of the area disturbed during mining activities depends on the legal requirements at the date of decommissioning, the costs and timing of work and the discount rate to be applied.

3.1 PROVISIONS

Accounting Policy

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

Site restoration
In accordance with the Group's published environment policy and applicable legal requirements, a provision for site restoration in respect of contaminated and disturbed land, and the related expense, is recognised when the land is contaminated or disturbed.

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

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 significantly higher than the amount 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.

	2019	2018
	$	$
Movement in carrying amounts		
Opening balance	(54,972)	(52,199)
Amounts utilised	-	-
Effects of foreign exchange	(3,111)	(2,773)
Reduction in provision required	-	-
Closing balance	**(58,083)**	**(54,972)**

SECTION 4 WORKING CAPITAL DISCLOSURES

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

4.1 CASH AND CASH EQUIVALENTS

Accounting Policy

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(a) Reconciliation of cash and cash equivalents

	Note	2019 $	2018 $
Cash and cash equivalents in the statement of cash flows	6.2	540,495	994,442

The perceived credit risk is low as cash and cash equivalents are with authorised deposit taking institutions.

(b) Reconciliation of cash flows from operating activities

	2018 $	2018 $
Cash flows from operating activities		
Loss for the period	(701,597)	(1,280,675)
Adjustments for:		
Depreciation	630	409
Insurance premium funding	36,485	-
Revaluation of investments	138,889	111,111
Sale of tenements	-	(367,090)
Net profit / (loss) on foreign exchange translation	5,354	(30,706)
Change in other receivables	39,506	(9,426)
Change in prepayments	2,426	(2,998)
Change in other operating assets	-	(818)
Change in trade and other payables	(340,604)	590,790
Change in employee benefits	(165,284)	295,262
Net Cash used in operating activities	**(984,195)**	**(694,141)**

(c) Non-cash investing activities

Refer to note 2.2 for detail of non-cash investing activities occurring during the year.

4.2 TRADE AND OTHER RECEIVABLES

Accounting Policy

Trade receivables are recognised initially at the value of the invoice sent to the counter-party and subsequently at the amounts considered recoverable (amortised cost).

The Group applies the AASB 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade and other receivables. To measure expected credit losses on a collective basis, trade and other receivables are grouped based on similar credit risk and aging.

The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's debtors.

As at 31 December 2019, there had been no credit losses in the previous three years from debtors in other receivables nor were any credit losses recognised from authorised government agencies, therefore, no provision for impairment has been recognised.

	2019 $	2018 $
Net production revenue receivable	-	-
Other receivables	-	4,842
Authorised government agencies	-	34,757
	-	**39,599**
Current	-	39,599
Non-current	-	-
	-	**39,599**

Information about the Group's exposure to credit and market risks is included in note 6.2.

4.3 FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

Accounting Policy

Financial assets are recognised when the Group becomes party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Financial assets are classified according to their business model and the characteristics of their contractual cash flows. Except for those trade receivables that do not contain a significant financing component and are measure at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs.

For subsequent measurement, financial assets, other than those designated as hedging instruments, are classified into the following four categories:

- Financial assets at amortised cost
- Financial assets at fair value through profit or loss (FVTPL)
- Debt instruments at fair value through other comprehensive income (FVTOCI)
- Equity instruments at FVTOCI

4.3 FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The Group has elected to carry investments in equity securities of listed entities as Fair Value through Profit or Loss as the financial asset is not considered to be held within a business model whose objective is satisfied under the amortised cost or fair value through other comprehensive income models. Therefore, all income and expenses relating to fair value movements are recognised in profit or loss.

The fair value measurement of financial assets held at FVTPL is determined with reference to the requirements of AASB 13 *Fair Value Measurement*. Financial assets held at FVTPL are valued using market observable inputs and data as far as is possible. The fair value hierarchy is disclosed in note 1.6.

(a) Fair Value of Investments at period end

	Note	2019 $	2018 $
Shares held in publicly listed Company	(i)	-	138,889

(b) Reconciliation of movements in fair value

	Note	2019 $	2018 $
Opening balance		138,889	-
Proceeds from sale of subsidiary	2.2	-	250,000
Revaluation of investment	(ii)	(138,889)	(111,111)
Closing balance		**-**	**138,889**

(i) Xstate received 138,888,889 fully paid ordinary shares in Gasfields Limited (**ASX:GFS**) (formerly Raven Energy Limited [**ASX:REL**]) on 17 August 2018 at a value of $0.0018 per share for a total consideration of A$250,000 as a part payment in regard to its acquisition agreement of the ownership rights of XGas LLC.

(ii) As at 31 December 2018, the shares in Gasfields Limited continued to be suspended from trading. This suspension was put in place on 7 March 2018. Additionally, a placement update by Gasfields on 25 January 2019 noted a proposed placement of shares to sophisticated investors up to a value of $1,000,000 to be issued at a price of $0.001 per share. The Directors assessed the above factors and acknowledged that in the absence of trading capability for an extended time period, and the pending capital raise, that revaluation of the shareholding to $0.001 was appropriate.

The fair value measurement of Gasfields shares would ordinarily be a measurement under Level 1 of the Fair Value Hierarchy – utilising quoted prices in active markets. However, as the shares are not actively traded at year end, the Company cannot consider a quoted price in an active market. Therefore, the shares have been valued utilised Level 2 inputs above – observable direct or indirect inputs other than Level 1 inputs.

As at 31 December 2019, Gasfields had been removed from the official list by the ASX as a result of being suspended continuously for a period in excess of two years and had failed to submit outstanding periodic reports to the ASX. Due to this delisting, and the understanding that the company had failed to secure further funding or projects, the Directors of the Company assessed the fair value of the shares to be nil. The shares were transferred to Mr Cosimo Damiano upon his resignation for nil value (note 6.3).

4.4 TRADE AND OTHER PAYABLES

Accounting Policy

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

	2019	2018
	$	$
Current		
Trade payables	(277,613)	(730,338)
Other payables and accrued expenses	(179,487)	(36,716)
	(457,100)	**(767,104)**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 6.2.

SECTION 5 EQUITY AND FUNDING

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

5.1 CAPITAL AND RESERVES

Accounting Policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Share capital

	Ordinary shares			
	Number of shares		Amount in $	
	2019	2018	2019	2018
Movements in ordinary shares on issue:				
On issue at 1 January	**1,140,490,898**	**783,490,897**	**49,006,771**	**48,018,660**
Private placement of shares at 0.2 cents each to raise working capital	285,000,000	-	570,000	-
Private placement of shares at 0.3 cents each to raise working capital	-	116,666,667	-	350,000
Private placement of shares at 0.3 cents each to raise working capital	-	207,000,000	-	621,000
Private placement of shares at 0.3 cents each in partial satisfaction of director fee liability	-	33,333,334	-	100,000
Capital raising costs	-	-	(15,838)	(82,889)
On issue at 31 December	**1,425,490,898**	**1,140,490,898**	**49,560,932**	**49,006,771**

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 Company. Option holders cannot participate in any new share issues by the Company without exercising their options.

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

All issued shares are fully paid.

5.1 CAPITAL AND RESERVES (continued)

Options

	Options under issue			
	Number of options		Amount in $	
	2019	**2018**	**2019**	**2018**
Movements in options on issue:				
On issue at 1 January	**47,000,000**	**42,000,000**	**457,416**	**445,200**
Issue of options to consultants on 6-Dec-18, exercisable at 0.5 cents each	-	5,000,000	-	12,216
On issue at 31 December	**47,000,000**	**47,000,000**	**457,416**	**457,416**

At the date of this report, the Company has a total of 42,000,000 unissued ordinary shares under option with an exercise price of 5 cents and an expiry date of 31 December 2020, and 5,000,000 unissued ordinary shares under option with an exercise price of 0.5 cents and an expiry date of 30 December 2020. The key valuation assumptions made at valuation date are summarised below:

	Number of options	Exercise price	Grant date	Expiry date	Life of options	Volatility	Risk free rate
Directors	40,000,000	5 cents	31-Jan-17	31-Dec-20	2.92	100%	1.83%
Consultants	2,000,000	5 cents	03-Feb-17	31-Dec-20	2.91	100%	1.83%
Consultants	5,000,000	0.5 cents	06-Dec-18	30-Dec-20	2.91	128%	2.04%

As detailed in the Notice of General Meeting released to the ASX 21 December 2016, the primary purpose of the grant of the options to the Directors was to provide a performance linked incentive component in the remuneration package for the Directors to motivate and reward the performance in their respective roles. As such, these options did not have vesting conditions attached to them.

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 (2018: no options expired).

Nature and purpose of reserves

Options reserve

The options reserve represents the fair value of shares to be issued to directors, consultants and employees. This reserve will be transferred to capital once the shares have been issued or reversed through retained earnings if the options expire or are cancelled.

Foreign currency translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operations.

SECTION 6 OTHER DISCLOSURES

The disclosures in this section focus on share schemes in operation and financial risk management of the Group. Other mandatory disclosures, such as details of related party transactions, can also be found here.

Key estimates and assumptions in this section

Share-based payments

The fair value of share options is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on an evaluation of the company's historic volatility, particularly over the historic period commensurate with the expected term) and weighted average expected life of the instruments (based on historical experience), expected dividends (if any) and the risk-free interest rate (based on government bonds). Service and non-market conditions are not taken into account in determining fair value.

6.1 SHARE-BASED PAYMENTS

Accounting Policy

The share option programme allows Group employees to receive rights to acquire shares of the Company. The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the fair value of an employee share option has been recognised as a share-based payment and the option lapses on expiry, the total amount of the share-based payment expense is transferred from the share-based payment reserve to accumulated losses.

The share-based payment expense included within the consolidated statement of profit or loss can be broken down as follows:

	2019	2018
	$	$
Expensed in personnel expenses (Director remuneration)		
Options issued to Directors	-	-
Expensed in professional fees		
Options issued in part consideration for consultancy fees	-	12,216

6.1 SHARE-BASED PAYMENTS (continued)

Equity-settled share option programme

The Company adopted an Employee Share Options Scheme (ESOS) effective 31 January 2014. Under the ESOS, the Company may grant options and rights to Company eligible employees to acquire securities to a maximum of 10% of the Company's total issued ordinary shares at the date of the grant. The fair value of share options granted is estimated using the Black-Scholes option pricing model.

There are no vesting conditions attached to the options as the issue of the options is deemed to form part of the Directors remuneration in lieu of increased Directors fees. Options and rights granted under the plan carry no dividend or voting rights. When exercisable, each option is converted into one ordinary share. The maximum term of an option is 5 years from grant date and are settled in cash.

Options may not be transferred other than to an associate of the holder.

Options

At 31 December 2019, a summary of the Group options issued and not exercised was as follows. Options are settled by the physical delivery of shares:

Grant date	Vesting date	Expiry date	Exercise Price (cents)	Balance at the start of the year	Granted during the year	Expired / forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
31-Jan-17	03-Feb-17	31-Dec-20	5.0	42,000,000	-	-	42,000,000	42,000,000
06-Dec-18	06-Dec-18	30-Dec-20	0.5	5,000,000	-	-	5,000,000	5,000,000
Total				**47,000,000**	**-**	**-**	**47,000,000**	**47,000,000**
Weighted Average Exercise Price (cents)				**4.5**	**-**	**-**	**4.5**	**4.5**

No options were granted during the year (2018: 5,000,000 options granted).

During the year ended 31 December 2019, no options expired (2018: no options expired).

The weighted average exercise price of outstanding shares at the end of the reporting period was 4.5 cents (2018: 4.5 cents).

At the end of the reporting period, the weighted average remaining contractual life of options outstanding at year end was 1 year (2018: 2 years).

Key inputs in the valuation model for the options issued are disclosed in note 5.1.

6.1 SHARE-BASED PAYMENTS (continued)

Options

At 31 December 2018, a summary of the Group options issued and not exercised are as follows:

Grant date	Vesting date	Expiry date	Exercise Price (cents)	Balance at the start of the year	Granted during the year	Expired / forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
31-Jan-17	03-Feb-17	31-Dec-20	5.0	42,000,000	-	-	42,000,000	42,000,000
06-Dec-18	06-Dec-18	30-Dec-20	0.5	-	5,000,000	-	5,000,000	5,000,000
Total				**42,000,000**	**5,000,000**	**-**	**47,000,000**	**47,000,000**
Weighted Average Exercise Price (cents)				**5.0**	**0.5**	**-**	**4.5**	**4.5**

6.2 FINANCIAL INSTRUMENTS - RISK MANAGEMENT

Accounting Policy

Classification of financial instruments

The financial assets and liabilities of the Group are classified into the following financial statement categories in the statement of financial position in accordance with AASB 9 *Financial Instruments:*

- Fair value through Profit or Loss (FVTPL)
- Amortised Cost
- Fair value through Other Comprehensive Income (FVTOCI)

Judgement is required when determining the appropriate classification of the Group's financial instruments. Details on the accounting policies for measurement of the above instruments are set out in the relevant note.

Recognition and de-recognition of financial assets and liabilities

The Group recognises a financial asset or liability when it becomes a party to the contract. Financial instruments are no longer recognised in the statement of financial position when contractual cash flows expire or when the Group no longer retains control of substantially all the risks and rewards under the instrument.

Overview

The Group has exposure through its operations to the following financial risks:

- Credit risk
- Interest rate risk
- Foreign exchange risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

Principal Financial Instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Cash and Cash Equivalents (note 4.1)
- Trade Receivables (note 4.2)
- Investments in quoted equity securities (note 4.3)
- Trade and other payables (note 4.4)

Financial Assets

	Fair value through Profit or Loss		Amortised cost	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Cash and cash equivalents	-	-	540,495	994,442
Trade and other receivables	-	-	-	40,422
Quoted equity securities	-	138,889	-	-
Total Financial Assets	**-**	**138,889**	540,495	1,034,864

6.2 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

Financial Liabilities

	Amortised Cost	
	2019	**2018**
	$	**$**
Trade and other payables	457,100	767,104

Financial Instruments not measured at fair value

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables and trade and other payables.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables and trade and other payables approximates their value.

General objectives, processes and policies

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit and Risk Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Group's receivables from customers.

As the Group currently has a minimal amount of transactions that result in receivables, due to the nature of the entity being an exploration entity, the Risk Management Committee has determined it not necessary to establish a credit policy for assessing creditworthiness of customers at this stage.

The carrying amount of financial assets represents the maximum credit exposure. Further disclosures regarding trade and other receivables, which are neither past due not impaired, are provided in note 4.2.

Cash and cash equivalents

The Group held cash and cash equivalents of $540,495 at 31 December 2019 (2018: $994,442). The cash and cash equivalents are held with authorised banking institutions and only with counterparties that have an acceptable credit rating.

6.2 FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Other receivables

As the Group operates primarily in exploration activities, it does not have trade receivables and therefore is not exposed to credit risk in relation to trade receivables.

At 31 December 2019, the maximum exposure to credit risk for trade and other receivables by geographic region was as follows:

	Carrying amount	
	2019	**2018**
	$	**$**
Australia	-	40,422
USA	-	-
	-	**40,422**

Currently, the Group undertakes exploration and evaluation activities exclusively in the USA. As the Group is not trading there are no financial assets past due and there is no management of credit risk through performing an aging analysis; therefore, an aging analysis has not been disclosed.

Liquidity risk

Liquidity risk arises from the Group's management of working capital, it is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure, so far as is possible, that it will always have sufficient cash and cash equivalents to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities excluding the impact of netting arrangements:

	Carrying amount	Contractual cash flows	12 months or less
	$	**$**	**$**
31 December 2019			
Non-derivative financial liabilities			
Trade and other payables	(457,100)	(457,100)	(457,100)
Employee entitlements	(150,353)	(150,353)	(150,353)
	(607,453)	**(607,453)**	**(607,453)**
31 December 2018			
Non-derivative financial liabilities			
Trade and other payables	(767,104)	(767,104)	(767,104)
Employee entitlements	(315,637)	(315,637)	(315,637)
	(1,082,741)	**(1,082,741)**	**(1,082,741)**

The balances above will not always agree to the financial statements as the contractual cash flows above are undiscounted. The carrying amount is the balance as recognised in the statement of financial position.

6.2 FINANCIAL RISK MANAGEMENT (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. There has been no change to the manner in which the Group manages market risk from the previous year.

Foreign exchange risk

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group is predominantly exposed to currency risk on expenditure incurred through exploration and evaluation activities in the USA.

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at the reporting date is as follows (denominated below in AUD equivalent as at respective period end exchange rates):

	Assets		Liabilities	
	2019	2018	2019	2018
	$	$	$	$
US dollar	135,686	125,662	(129,030)	(290,100)

<u>Foreign currency sensitivity analysis</u>

The Group is mainly exposed to US dollar (USD) foreign exchange risk. The following table details the Group's sensitivity to a 2% (31 December 2018: 2%) increase and decrease in the Australian dollar against the relevant foreign currencies and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 2% (31 December 2018: 2%) change in foreign currency rates. A positive number indicates an increase in profit or loss where the Australian dollar strengthens against the respective currency.

	Impact on profit or loss	
	2019	2018
	$	$
If AUD strengthens by 2% (31 December 2018: 2%)		
USD	(133)	5,988
If AUD weakens by 2% (31 December 2018: 2%)		
USD	133	(5,988)

From the above analysis, there would be no material impact on other equity of the Company and the Group.

Interest rate risk

The Group only has interest rate risk relating to its funds on deposit with banking institutions. Accordingly, the Group does not hedge its interest rate risk exposure.

6.2 FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Exposure to interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments as reported to management of the Group is as follows:

	Carrying amount	
	2019	2018
	$	$
Variable rate instruments		
Cash and cash equivalents	540,495	994,442
	540,495	**994,442**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for twelve months ended 31 December 2018.

	Profit or loss	
	100 bp increase	100 bp decrease
	$	$
31 December 2019		
Variable rate instruments	4,057	(1,826)
Cash flow sensitivity	**4,057**	**(1,826)**
31 December 2018		
Variable rate instruments	8,688	(4,344)
Cash flow sensitivity	**8,688**	**(4,344)**

At the reporting date the Group did not hold any variable rate financial liabilities.

6.3 RELATED PARTIES

Key management personnel compensation included in 'Directors' remuneration' (note 2.3) and 'Share-based payments' (note 6.1), comprises the following:

	Note	2019 $	2018 $
Short term employee benefits		292,070	352,241
Post-employment benefits		14,806	17,764
Share based payments – options	6.1	-	-
	2.3	**306,876**	**370,005**

Individual Director's and Executives' compensation disclosures

Information regarding individual Director's and Executive's compensation and some equity instruments disclosures as required by S300A of the Corporations Act and Corporations Regulations 2M.3.03 are provided in the Remuneration report section of the Directors' Report in section 14.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

Other key management personnel transactions

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these companies transacted with the Company during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions to non-key management personnel related companies on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to Key Management Personnel and entities over which they have control or significant influence were as follows:

			Transactions value year ended 31 December		Balance outstanding as at 31 December	
			2019	2018	2019	2018
KMP	***Transaction***	**Note**	**$**	**$**	**$**	**$**
Chris Hodge	Consultancy fees	1	4,500	9,750	4,500	58,012
David McArthur	Management fees	2	96,000	88,000	52,800	35,200
Cosimo Damiano	Sale of GFS shares	3	-	-	-	-
					57,300	**93,212**

1 The Group used the consultancy services of CCH Resources Pty Ltd, a company associated with Mr Hodge, in relation to advice on certain exploration and management activities of the Group. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

2 The Group used the management services of Broadway Management (WA) Pty Ltd, a company associated with Mr McArthur, in relation to the provision of bookkeeping, accounting and financial control aspects of the Company's operations. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

3 The Company transferred ownership rights of all Gasfields Limited (**ASX:GFS**) shares to Mr Damiano for nil value on 26 November 2019 as the investment was deemed to have no future value to the Company and would have otherwise been discarded.

6.4 SUBSIDIARIES

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

Name of subsidiary	Principal activity	Place of incorporation and operation	Financial year end	Proportion of ownership interest and voting power held by the Group 2019 %	2018 %
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	California, USA	31 December	100	Nil

6.5 PARENT COMPANY DISCLOSURES

As at, and throughout the financial year ended 31 December 2019, the parent entity of the Group was Xstate Resources Limited.

	2019 $	2018 $
Results of the parent entity		
Total comprehensive loss for the year	**(647,283)**	**(1,284,138)**
Financial position of parent entity at year end		
Current assets	432,956	1,110,482
Total assets	434,647	1,110,705
Current liabilities	(478,424)	(1,061,360)
Total liabilities	(478,424)	(1,061,360)
Total equity of the parent entity comprising of:		
Share capital	49,560,932	49,006,771
Reserves	457,416	457,416
Accumulated losses	(50,062,125)	(49,414,842)
Total (deficiency) / equity	**(43,777)**	**49,345**

Refer to note 6.8 for contingent liabilities that impact the parent entity.

6.6 SUBSEQUENT EVENTS

Since reporting date, the spread of COVID-19 (coronavirus) has impacted global economies and the repercussions expected to be associated are as yet unknown. The Directors are assessing all planned expenditure for the coming months and determining what is capable of being deferred until a more appropriate time.

In conjunction with the above, subsequent to the reporting date, there has also been significant volatility in world oil and gas pricing, resulting in a material decline in oil and gas sales prices.

The scale and duration of these developments remains uncertain, but have potential to negatively impact upon the cash flows and financial position of the Group, as well as impact the Group's ability to raise capital or debt and the ability of the Group to continue as a going concern.

Other than the above, there have been no subsequent events of a material nature occurring.

6.7 AUDITORS' REMUNERATION

	2019 $	2018 $
BDO Audit (WA) Pty Ltd		
Audit and other assurance services		
Audit and review of financial reports	27,925	35,413
Total remuneration for audit and other assurance services	**27,925**	**35,413**
Taxation services		
Tax compliance services	8,938	9,430
Total remuneration of BDO Audit (WA) Pty Ltd and its related parties	**36,863**	**44,843**

It is the Group's policy to employ BDO on assignments additional to their statutory audit duties where BDO's expertise and experience with the Group are important. These assignments are principally tax advice, or where BDO is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

	2019 $	2018 $
Non-BDO audit firms		
Audit and other assurance services		
Audit and review of financial reports	-	-
Total remuneration for audit and other assurance services	**-**	**-**
Taxation services		
Tax compliance services	7,352	38,334
Total remuneration of non-BDO audit firms	**7,352**	**38,334**
TOTAL REMUNERATION OF AUDIT FIRMS	**44,215**	**83,177**

6.8 CONTINGENT LIABILITIES

A contingent liability is a possible obligation arising from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent liability may also be a present obligation arising from past events but is not recognised on the basis that an outflow of economic resources to settle the obligation is not viewed as probable, or the amount of the obligation cannot be reliably measured.

When the Group has a present obligation, an outflow of economic resources is assessed as probable and the Group can reliably measure the obligation, a provision is recognised.

No contingent liabilities exist as at the end of the reporting period, nor at the date of authorisation for this financial report.

6.9 ADOPTION OF NEW AND REVISED STANDARDS

Except for the changes below, the Group has consistently applied the accounting policies set out in the notes to the consolidated financial statements to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2019.

AASB 16 *Leases*

AASB 16 replaces AASB 117 *Leases*. AASB 16 eliminates the operating and finance lease classifications for lessees.

AASB 16 is applicable to annual reporting periods beginning on or after 1 January 2019.

<u>Impact on operating leases</u>

AASB 16 will change how the Group accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet. On initial application of AASB 16, for all leases (except as noted below), the Group will:

- Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments.
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income.
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented in operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under AASB 16, right-of-use assets will be tested for impairment in accordance with AASB 136 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers or office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by AASB 16.

<u>Impact on finance leases</u>

The main differences between AASB 16 and AASB 117 with respect to assets formerly held under a finance lease is the measurement of the residual guarantees provided by the lessee or lessor.

AASB 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by AASB 117.

On initial application, the Group will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented with borrowing, will be presented in a separate line for lease liabilities.

The Company is ASX listed and classified as an oil and gas exploration entity and as such, is party to leasing arrangements entered into by the JV operator for various oil and gas fields to explore these areas in an effort to discover and assess economically viable gas deposits. The leasing agreements for the exploration sites are with families who have divided the ownership down through generations, meaning that one field could potentially have in excess of thirty to forty lessors.

Per paragraph 3(a) of AASB 16, it is noted that:
"*An entity shall apply this Standard to all leases, including lease of right-of-use assets in a sublease, except for leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources*."

Based on an analysis of the Group's finance leases as at 31 December 2019 on the basis of the facts and circumstances that exist at that date, the Directors of the Company have assessed that the impact of this change will not have a material impact on the amounts recognised in the Group's consolidated financial statements.

6.9 ADOPTION OF NEW AND REVISED STANDARDS (continued)

Interpretation 23 *Uncertainty over Income Tax Treatments*

This interpretation clarifies how to apply the recognition and measurement requirements in AASB 112 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in AASB 112 based on taxable profit (tax loss), unused tax losses, unused tax credits and tax rates determined applying this interpretation.

Interpretation 23 is effective from annual reporting periods beginning on or after 1 January 2019.

Other than the above, the Directors have determined that there is no material impact of the Standards and Interpretations in issue not yet adopted on the Company and, therefore, no change is necessary to Group accounting policies.

6.10 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date of authorisation of these consolidated financial statements, the Group has not applied the following new and revised accounting standards and interpretations that have been issued but are not yet effective:

AASB 10 and AASB 128	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to AASB 3	*Definition of a business*
Amendments to AASB 101 and AASB 108	*Definition of material*

Amendments to references to the Conceptual Framework in Accounting Standards

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Xstate Resources Limited (the "Company"):

   (a) the accompanying 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 31 December 2019 and of its performance for the year then ended; and

      (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001*, professional reporting requirements and other mandatory requirements.

   (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.

   (c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2019.

This declaration is signed in accordance with a resolution of the Board of Directors.

DAVID MCARTHUR

Interim Managing Director

Dated at Perth, Western Australia this 30th day of March 2020.

BDO

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INDEPENDENT AUDITOR'S REPORT

To the members of Xstate Resources Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Xstate Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the Corporations Act 2001, including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report. We are independent of the Group in accordance with 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 (the Code) that are relevant to our audit of the 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 in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1.2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

BDO

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Income from legal proceedings

Key audit matter	How the matter was addressed in our audit
During the year ended 31 December 2019, the Group were seeking damages in relation to the non-payment of $25 million in subscription funds by four investors who had signed binding agreements with the Group in 2016. The Group entered into a Forbearance to Sue Agreement with one of the four investors in the year ended 31 December 2019. The agreed forbearance sum of $500,000 was received over five instalments between February and May 2019 as described in Note 2.2 to the financial report. Given the nature of the matter and its significance to the Group this is considered a key audit matter.	Our procedures included, but were not limited to: • Assessing management's position and evaluation of items of legal proceeding claims as other income; • Reviewing the Director's minutes, ASX announcements and correspondence by third parties for evidence that information is consistent with management's assessment of the legal matter and claim; • Agreeing the amounts received during the year to supporting bank statements and assessing that the amounts received were recorded in accordance with Australian accounting standards; • Reviewing legal invoices and obtaining written representation from solicitors for corroboration against management's assessment of the legal matters; and • Assessing the adequacy of the related disclosures in note 2.2 to the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2019, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 15 of the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of Xstate Resources Limited, for the year ended 31 December 2019, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

BDO

Dean Just

Director

Perth, 30 March 2020

STOCK EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 16 March 2020:

1. Distribution of ordinary shares

Range	Total holders	Ordinary shares	% of issued capital
1 - 1,000	710	79,971	0.01%
1,001 - 5,000	103	277,066	0.02%
5,001 - 10,000	67	546,315	0.04%
10,001 - 100,000	239	11,237,818	0.78%
100,001 and over	438	1,413,349,728	99.15%
Total	**1,557**	**1,425,490,898**	**100**

There were 1,574 holders of less than a marketable parcel of ordinary shares.

2. Substantial shareholders

The substantial shareholders are set out below:

Shareholders	Number of Shares
Petroleum Ventures Pty Ltd	100,000,000
Mr Teik Tatt Oh	83,731,023
Salvatore Di Vincenzo	71,557,579

3. Voting rights

Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll, every member present or by proxy shall have one vote for every share held.

Options and rights
No voting rights.

4. Unlisted options

Grant date	Number	Number of holders	Expiry date	Exercise price (cents)
31-Jan-17	42,000,000	7	31-Dec-2020	5.0
03-Dec-18	5,000,000	1	30-Dec-2020	0.5

5. Twenty largest shareholders

Shareholders	Ordinary shares Number held	% of issued shares
Petroleum Ventures Pty Ltd	100,000,000	7.02%
Mr Teik Tatt Oh	83,731,023	5.88%
Mr Salvatore Di Vincenzo	71,557,579	5.02%
J P Morgan Nominees Australia Pty Ltd	52,942,031	3.71%
Mr William Henry Hernstadt	40,000,000	2.81%
IBT Holdings Pty Ltd <IBT Holdings Pty Ltd Fam A/C>	40,000,000	2.81%
Mr Peter Mark Lewis	35,000,000	2.46%
Citicorp Nominees Pty Ltd	32,105,468	2.25%
Talex Investments Pty Ltd <A F Wylie Super Fund A/C>	30,100,000	2.11%
Mr Jouke Jan van der Baan	27,027,770	1.90%
Mr David McArthur	24,993,699	1.75%
Suburban Holdings Pty Limited <Suburban Super Fund A/C>	22,746,282	1.60%
Apnea Holdings Pty Ltd <Kelly Family A/C>	22,662,258	1.59%
Bond Street Custodians Limited <PNCORK – D00089 A/C>	22,248,342	1.56%
Mr Thomas Brian Cannon	22,000,000	1.54%
Mr Cosimo Damiano	20,900,000	1.47%
Matilda West Pty Ltd <Team B A/C>	18,050,000	1.27%
Tegif Pty Ltd	17,000,000	1.19%
Mr Anthony James Borrello & Mrs Neda Borrello	16,011,397	1.12%
Mr Eric Charles Leonard Rae	16,000,000	1.12%

6. Petroleum lease interests at 16 March 2020

Project name	Location	Working interest
Alvares Appraisal Well	Sacramento Basin Onshore Northern California	25%
Alvares Project	Sacramento Basin Onshore Northern California	30%
Dempsey 1-15 Well	Sacramento Basin Onshore Northern California	10%
Dempsey AMI	Sacramento Basin Onshore Northern California	24%
Rancho-Capay Gas Field	Sacramento Basin Onshore Northern California	10%
Malton Field	Sacramento Basin Onshore Northern California	30%
East Rice East Creek Field	Sacramento Basin Onshore Northern California	10%
Los Medanos Gas Field	Sacramento Basin Onshore Northern California	10%
Dutch Slough Field	Sacramento Basin Onshore Northern California	30%
Denverton Field	Sacramento Basin Onshore Northern California	30%

7. Gold tenements listing at 16 March 2020

Tenement description	Tenement number	Status	Percentage interest
King Brown	M24/705	Granted	12%