XSTATE RESOURCES LIMITED

ABN 96 009 217 154

ANNUAL REPORT

2008

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

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XSTATE RESOURCES LIMITED
ABN 96 009 217 154

COMPANY DIRECTORY

DIRECTORS:	Ross Kestel David McArthur Rhod Grivas
SECRETARY:	David McArthur
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SHARE REGISTRY:	Advanced Share Registry Services 110 Stirling Highway NEDLANDS WA 6009 Telephone: (08) 9389 8033 Facsimile: (08) 9389 7871
BANKERS:	ANZ Banking Group Limited 31 Broadway NEDLANDS WA 6009
AUDITORS:	KPMG Central Park 152-158 St George's Terrace PERTH WA 6000
SOLICITORS:	Steinepreis Paganin Level 4, Next Building 16 Milligan Street PERTH WA 6000
DOMICILE AND COUNTRY OF INCORPORATION:	Australia

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

DIRECTORS' REPORT

The Directors present their report together with the financial report of XState Resources Limited ("the Company"), and of the Group, being the Company and its subsidiary, for the financial year ended 31 December 2008 and the auditor's report thereon.

DIRECTORS

The names and details of the Directors in office during or since the end of the financial year are:

Ross Kestel*, Non-executive chairman*

Mr Kestel, aged 54, is both a Chartered Accountant and Certified Practicing Accountant, and has been a director of the accounting practice Nissen Kestel Harford since July 1980. He has acted as a director and company secretary of a number of public companies involved in mineral exploration, mining, mine services, property development, manufacturing and technology industries.

Mr Kestel is a member of the audit committees of a number of ASX-listed companies and a member of the compliance committees of a number of managed investment schemes. He has also assisted in the listing of a significant number of companies on ASX.

Mr Kestel is a Registered Company Auditor and a member of the Institute of Company Directors.

Appointed 6 September 2006.

David McArthur*, Executive director*

Mr McArthur, aged 51, has a Bachelor of Commerce Degree from the University of Western Australia.

Mr McArthur is a Chartered Accountant, having spent four years with a major international accounting firm, and has over 30 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 26 years.

Mr McArthur has substantial experience in capital raisings, company re-organisations and restructuring, mergers and take overs, and asset acquisitions by public companies.

Appointed 6 September 2006.

Rhoderick Grivas*, Non-executive director*

Mr Grivas, aged 42, is a geologist with over 20 years' experience in all technical aspects of exploration from grassroots through to resource estimation and feasibility. He has held a number of director and management positions with junior resource companies.

Appointed 29 March 2007

All directors held their positions as a director throughout the entire financial year unless otherwise stated.

COMPANY SECRETARY

David McArthur is a chartered accountant and was appointed on 29 October 1999. Mr McArthur has 26 years experience in the corporate management of public companies.

DIRECTORS' REPORT

DIRECTORSHIPS OF OTHER LISTED COMPANIES

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
R Kestel	Dioro Exploration NL	April 2008 - current
	Jatoil Limited	September 2007 – current
	Resource Star Limited	August 2006 - current
	Reco Financial Services Limited	June 2006 - current
	VDM Group Limited	August 2005 - current
	Jabiru Metals Limited	August 2003 – current
	Equigold NL	April 2005 – June 2008
	DVM International Limited	April 2005 – November 2007
	Northern Mining Limited	April 2005 – June 2007
	Conquest Mining Limited	February 1999 – May 2007
D McArthur	Lodestar Minerals Limited	13 August 2007 - current
	Dioro Exploration NL	1991 – January 2009
	Aqua Carotene Limited	January 2008 – May 2008
	Ellendale Resources NL	1999 – May 2007
R Grivas	Lodestar Minerals Limited	13 August 2007 – current
	Dioro Exploration NL	2002 – current

DIRECTORS' MEETINGS

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year are:

	Attended	Eligible to Attend
R Kestel	5	5
D McArthur	5	5
R Grivas	5	5

At the date of this report the Company does not have a separately constituted audit committee, nomination committee or remuneration committee due to its size. Regular liaison between Directors and auditors takes place.

DIRECTORS' REPORT

REMUNERATION REPORT - AUDITED

Principles of Compensation

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group. Key management personnel comprise the directors of the Company and executives of the Company and the Group including the five most highly remunerated Company and Group executives (where applicable).

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles, if applicable), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the board through a process that considers individual, segment and overall performance of the Group. In addition, external consultants provide analysis and advice to ensure the director's and senior executives' compensation is competitive in the market place. A senior executive's compensation is also reviewed on promotion.

The Company has a remuneration policy which aims to provide remuneration that is fair and equitable in terms of external competitiveness.

The policy relates individual remuneration to individual performance, the individual's position in the relevant salary market and the need for the organisation to retain and motivate the individual. No remuneration is directly linked with the overall financial performance of the Group.

To give effect to this policy the board reviews available information that measures the remuneration levels in the various labour markets in which it competes.

The expectation of the Group is that, for a particular grade of employee, the total fixed compensation will be at the median level of the relevant market.

Other than options that may be issued to directors, the directors do not receive performance related compensation, short or long-term incentives, nor any other benefits.

Long-term incentive

Subject to shareholder approval, directors may receive options at various times for their ongoing commitment and contribution to the Group.

Service contracts

Executive directors
On 26 October 2007 an employment agreement, for a 3 year term, was entered into with Mr McArthur, whereby Mr McArthur is paid $75,000 per annum remuneration plus superannuation. The agreement has a condition that if it is terminated (other than by Mr McArthur) Mr McArthur shall receive a once only payment of 6 month's salary. On 21 April 2008, it was resolved that Mr McArthur's salary be increased to $80,000 per annum plus superannuation. The amount includes directors fees of $45,000.

Non-executive directors
The compensation for all non-executive directors, as voted by shareholders, is not to exceed $200,000 per annum in total, and is set based on advice from external advisors with reference to fees paid to other directors of comparable companies. Directors' base fees are presently $45,000 per annum per director and Chairman's fees $55,000 per annum.

Non-executive directors do not receive performance related compensation. Directors' fees cover all main board activities. Presently Mr Grivas receives a non-executive directors' fee of $45,000 per annum. Mr Kestel received Chairman's fees of $55,000 per annum.

REMUNERATION REPORT – AUDITED (continued)

Directors' and executive officers' remuneration - audited

Details of the nature and amount of each element of the compensation of each of the directors, being the key management personnel of the Company and the Group are shown below:

	Year	*Short-term* Fees & salary	*Short-term* Non-monetary Benefits*	*Post-employment* Superannuation	*Share-based payments* Options	*Share-based payments* Shares	Total	Proportion of remuneration performance related	Value of options of remuneration
		$	$	$	$		$	%	%
Directors									
R Kestel *Chairman*	**2008**	57,499	10,805	-	-	-	68,304	-	-
	2007	45,837	6,734	-	-	-	52,571	-	-
D McArthur *Executive Director & Company Secretary*	**2008**	78,338	10,805	7,391	-	-	96,534	-	-
	2007	75,000	6,733	6,756			88,849	-	
R Grivas *Managing Director*	**2008**	43,339	10,805	3,563	38,421	-	96,128	-	40
	2007	30,006	6,733	2,700	91,918		131,357		70
D Wood *Non-executive Director*	**2008**	-	-	-	-	-	-	-	-
	2007	11,113	6,734	1,000	-	-	18,847	-	-
Totals	**2008**	**179,176**	**32,415**	**10,954**	**38,421**	**-**	**260,966**		
	2007	**161,956**	**26,934**	**10,456**	**91,918**	**-**	**291,264**		

* This comprises Director's and Officers insurance paid by the company.

REMUNERATION REPORT – AUDITED (continued)

Directors' and executive officers' remuneration – audited
The fair value of options granted to Mr Grivas was determined using the Black and Scholes option pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised in this reporting period.

Directors fees for Mr Ross Kestel are paid to Nissen, Kestel and Harford, a company associated with Mr R Kestel.

Company secretarial work and financial services are provided by Broadway Management (WA) Pty Ltd ("Broadway"), a company associated with David McArthur. Fees paid to Broadway totalled $61,250 (2007:$50,000).

Options and rights over equity instruments granted to directors of the company – audited
Details of options over ordinary shares in the Company that were granted as compensation to key management during the reporting period and details of options that vested during the reporting period are as follows:

Name	Number of options granted during 2008	Fair value per option at grant date ($)	Grant date	Vesting date	Exercise price	Expiry date	Number of Options vested during 2008
R Grivas	-	-	-	-	-	-	350,000

On 30 May 2007 1,000,000 options were issued to Mr Rhod Grivas. 300,000 were vested on 30 May 2007, 350,000 were vested on 30 May 2008 and the balance to be vested on 30 May 2009.

No options have been granted since the end of the financial year. The options were provided at no cost to the recipient. All options expire on the earlier of their expiry date or 30 days after termination of the individual's employment.

Modification of terms of equity-settled share-based payment transactions – audited

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

Exercise of options granted as compensation – audited

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

DIRECTORS' REPORT

REMUNERATION REPORT – AUDITED (continued)

Analysis of options and rights over equity instruments granted as compensation - audited

Details of vesting profiles of the options granted as remuneration to key management of the Group and each of Company executives and Group executives are detailed below.

	Options Granted		**% vested in year**	**% forfeited in year**	**Financial years ending 31 December in which grant vests**
	Number	**Date**	**(A)**	**(B)**	
Directors					
Rhod Grivas	350,000	30 May 2007	100%	-	2008
	350,000	30 May 2007	35%	-	2009

(A) The amount vested in the year represents the expense recognised in accordance with the accounting standards.
(B) The % forfeited in the year represents the reduction from the maximum number of options available to vest due to the highest level performance criteria not being achieved.

Analysis of movements in options- audited

The movement during the reporting period, by value, of options over ordinary shares in the Company held by key management person and Company executives and relevant Group executives is detailed below:

	Granted in year (A) $	**Value of Options Exercised in year (B) $**	**Lapsed in year (C) $**
Directors			
Rhod Grivas	Nil	Nil	Nil

(A) The value of options granted in the year is the fair value of the options calculated at grant date using the Black Scholes option-pricing model. No options were granted during the year.

(B) The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option. No options were exercised during the year.

(C) The value of the options that lapsed during the year represents the benefits forgone and is calculated at the date the option lapsed using a Black Scholes option-pricing model assuming the performance criteria has been achieved. No options lapsed in the year.

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

The principal activity of the Company is the exploration and evaluation of mineral interests.

OPERATING AND FINANCIAL REVIEW

Shareholder returns	2008	2007
Net loss attributable to equity holders ($)	(1,975,847)	(815,346)
Basic and diluted EPS(cents)	(3.59)	(1.49)
Net Assets (NA) ($)	3,335,281	5,779,057
NA Backing (cents)	6.1	10.5

During September 2008 XState advised that the joint venture between the Company and Liberty Star Uranium and Metals Corp had determined that XState had earned a 50% interest in the uranium exploration areas in Arizona, USA. The three areas were to be chosen by XState from all the areas over which exploration had been conducted by the joint venture during its 18 months of operations.

With this determination, the previous "earn-in" agreement was terminated with both parties entering into a formal 50/50 contributing joint venture in relation to the three areas chosen by XState.

The three exploration areas chosen by XState in which it will hold a 50% participating interest are the Helvia, Hafsa and Neola areas.

The choice of the three areas was based upon geophysical, geochemical and geological work carried out by the joint venture.

At 31 December 2008 XState has uncommitted cash funds totalling $3,347,890. Minimal exploration will be carried out over the three joint venture areas of interest given the current economic and market environment.

With strong cash reserves, XState will continue to assess possible investments opportunities.

DIVIDENDS

Since the end of the previous financial year no dividends have been paid or declared by the Company and the Directors of the Company recommend that no dividend be provided for the year ended 31 December 2008.

SUMMARY OF MATERIAL TRANSACTIONS

During the financial year the Group ceased their exploration activities over Uranium tenements in Arizona, USA. As a result, the Company wrote off a bad debt on an intercompany loan of $2,180,111 and the Group wrote off capitalised exploration and evaluation expenditure of $1,984,424.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the directors, there were no matters that significantly affected the state of affairs of the Company during the financial year in review, other than those matters referred to in the summary of material transactions.

DIRECTORS' REPORT

EVENTS SUBSEQUENT TO REPORTING DATE

No events of a material nature have occurred subsequent to year-end.

ENVIRONMENTAL REGULATIONS

The Company has a policy of at least complying, but in most cases exceeding its environmental performance obligations. No environment breaches have been notified by any government agency during the year ended 31 December 2008. The board believes that the Company has adequate systems in place for the management of its environment regulations.

LIKELY DEVELOPMENTS

The Company will continue to assess other investment opportunities.

DIRECTORS' INTERESTS

Relevant interests of the directors in the shares and options of the Company, as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, as at the date of this report, are:

	Ordinary shares	Options over ordinary shares
Directors		
Ross Kestel	-	-
David McArthur	1,879,500	-
Rhod Grivas	130,000	1,000,000
	2,009,500	1,000,000

SHARE OPTIONS

Options granted to directors and officers of the Company
The company has not granted options during or since the end of the financial year.

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

Expiry date	Exercise price	Number of shares
30 April 2012	$0.50 $0.65 $0.75	300,000 350,000 350,000
Total		1,000,000

All options expire on the earlier of their expiry date or 30 days after termination of the employee's employment.

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

Shares issued on exercise of options
During or since the end of the financial year, the Company has not issued ordinary shares as a result of the exercise of options.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year the Company entered into an indemnity, insurance and access deed to indemnify any director of the Company or of any related body corporate against a liability incurred in acting as a director.

NON-AUDIT SERVICES

The directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the directors to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 '*Professional Independence*', as they did not involve reviewing or auditing the auditors 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 amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below:

	Consolidated & Company	
	2008	**2007**
	$	**$**
Audit and review of financial reports	67,572	40,634
Tax compliance services	5,500	10,500
	73,072	51,134

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 19 and forms part of the directors' report for the financial year ended 31 December 2008.

This report is made with a resolution of the directors.

D McArthur

D M McARTHUR
Director

Dated at Perth, Western Australia this 27th day of February 2009

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

The Board of Directors of XState Resources Limited has adopted the following set of principles for the corporate governance of the Company. These principles establish the framework of how the Board carries out its duties and obligations on behalf of the shareholders.

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

The ASX Listing Rules require listed companies to include in their annual report a statement disclosing the extent to which they have complied with the ASX Corporate Governance Principles and Recommendations in the reporting period. These recommendations are guidelines designed to produce an efficient, quality or integrity outcome. The recommendations are not prescriptive so that if a company considers that a recommendation is inappropriate having regard to its particular circumstances, the company has the flexibility not to follow it. Where a company has not followed all the recommendations, the annual report must identify which recommendations have not been followed and give reasons for not following them.

Details have been included at the end of this statement setting out the ASX Corporate Governance Principles and Recommendations with which the Company has not complied in the reporting period.

Details of the Company's corporate governance practices in the relevant reporting period are set out below.

THE BOARD OF DIRECTORS

Role of the Board

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

- the establishment of the long term goals of the Company and strategic plans to achieve those goals;
- monitoring the achievement of these goals;
- the review of management accounts and reports to monitor the progress of the Company;
- the review and adoption of budgets for the financial performance of the Company and monitoring the results on a regular basis to assess performance;
- the review and approval of the annual and half-year financial reports;
- nominating and monitoring the external auditor;
- approving all significant business transactions;
- appointing and monitoring senior management;
- all remuneration, development and succession issues; and
- ensuring that the Company has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities.

The Board evaluates this policy on an ongoing basis.

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS (continued)

THE BOARD OF DIRECTORS (continued)

Board composition

The Directors' report contains details of the directors' skill, 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 Company's business with excellence. To maintain this, the Company'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 Board is primarily responsible for identifying potential new directors but has the option to use an external consulting firm to identify and approach possible new candidates for directorship. The selection of the directors must be approved by shareholders.

Retirement and re-election of directors

The Constitution of the Company requires one third of directors, 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.

Independence of directors

The Board has reviewed the position and association of each of the three directors in office at the date of this report and considers that two of the three 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 of new directors upon appointment and reviews their independence, and the independence of the other directors, as appropriate.

Independent professional advice

With the prior approval of the Chairperson, each director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company'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, his 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 Company has not conducted a performance evaluation of the members of the Board during the reporting period, however the Board conducts a review of the performance of the Company against budgeted targets on an ongoing basis.

Director remuneration

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

Executive directors may be remunerated by both fixed remuneration and equity performance based remuneration and no termination payments will be agreed other than a reasonable period of notice of termination as detailed in the executive's employment contract.

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS (continued)

MANAGING BUSINESS RISK

The Company maintains policies and practices designed to identify and manage significant business risks, including:

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Company's business plan;
- corporate strategy guidelines and procedures to review and approve the Company's strategic plans; and
- insurance and risk management programmes 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 Company's risk profile is reviewed annually. The Board may consult with the Company's external auditors on external risk matters or other appropriately qualified external consultants on risk generally, as required.

The Board receives regular reports about the financial condition and operating results of the consolidated group. The Chief Executive Officer 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 Company's financial reports present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and
- the Company's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

Internal controls

Procedures have been established at the Board and executive management levels that are designed to safeguard the assets and interests of the Company, and to ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures. To achieve this, the executive directors perform the following procedures:

- 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.

AUDIT COMMITTEE

Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee of the Board, however meetings are held throughout the year between the Company Secretary, Mr David McArthur, the board and/or board members as appropriate and the Company's auditors to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

The Board has not formalised any procedures for the selection, appointment or rotation of its external auditor but reviews this matter on an ongoing basis and implements changes as required.

CORPORATE GOVERNANCE STATEMENT

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS (continued)

REMUNERATION AND NOMINATION COMMITTEE

Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee of the Board, however meetings are held throughout the year between the Company Secretary, Mr David McArthur, the board and/or board members as appropriate to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

ETHICAL STANDARDS

In pursuit of the highest ethical standards, the Company has adopted a Code of Conduct which establishes the standards of behaviour required of directors and employees in the conduct of the Company's affairs. This Code is provided to all directors and employees. The Board monitors implementation of this Code. Unethical behaviour is to be reported to the Chairman as soon as practicable.

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 Company which applies to all directors and employees. Under the policy, directors are prohibited from short term or "active" trading in the Company's securities and directors and employees are prohibited from dealing in the Company's securities whilst in possession of price sensitive information. The Chairman (or in his place the Managing Director) must also be notified of any proposed transaction.

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

CONTINUOUS DISCLOSURE

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

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

The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairperson, who in consultation with the Board (where practicable) and any other appropriate personnel, will consider the information and whether disclosure is required and prepare an appropriate announcement.

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

CORPORATE GOVERNANCE STATEMENT

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS (continued)

SHAREHOLDERS

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

- as the Company is a disclosing entity, regular announcements are made to the Australian Stock Exchange in accordance with the Company's continuous disclosure policy, including quarterly cash flow reports, half-year reviewed accounts, year end audited accounts and an annual report;
- the Board ensures the annual report includes relevant information about the operations of the Company during the year, changes in the state of affairs and details of future developments;
- shareholders are advised in writing of key issues affecting the Company by effective use of the Company's share registry;
- any proposed major changes in the Company's affairs are submitted to a vote of shareholders, as required by the Corporations Act 2001;
- the Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Company's strategies and goals. All shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Company; and
- 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.

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

CORPORATE GOVERNANCE STATEMENT

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS (continued)

Pursuant to the ASX Listing Rules, the Company advises that based upon the information set out above, it does comply with the following Corporate Governance Principles and Recommendations, issued by the ASX Corporate Governance Council.

Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.
The Board has adopted a statement of its primary responsibilities as set out above, which reflects the policies that were in place during the reporting year.

Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1
The Company has provided details of the Board roles and responsibilities.

Recommendation 2.1: A majority of the board should be independent directors.
Two of the three directors are independent.

The Board has adopted procedures intended to ensure that independent decision making occurs. As set out above, all directors are entitled to seek independent professional advice in carrying out their duties. Further, in accordance with the Corporations Act 2001 (Cth) and the Company's policies, each member of the Board is required to keep the Board advised of any potential conflict of interest with the Company and must absent themselves from any Board discussion and not vote if a conflict does exist. Board effectiveness is also achieved through appointing directors with knowledge and experience specific to the Company's business and operations.

Recommendation 2.2: The chair should be an independent director.
The role of the chair has been filled by Mr Ross Kestel, a non-executive director.

Recommendation 2.3: The roles of the chair and chief executive officer should not be exercised by the same individual
The role of the chair has been filled by Mr Ross Kestel and the role of Chief Executive Officer has been fulfilled by Mr David McArthur.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.
The Company has disclosed the process for evaluating the performance of the board in the Directors report.

Recommendation 2.6: Companies should provide the information indicated in the "Guide to reporting on Principle 2".
The Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 2*.

Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to:
- *3.1.1 the practices necessary to maintain confidence in the company's integrity*
- *3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders*
- *3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

The Company has adopted a Code of Conduct setting standards of behaviour and compliance with obligations to stakeholders, which reflects policies in place during the reporting year.

Recommendation 3.2: Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy
The Company has adopted a trading policy.

CORPORATE GOVERNANCE STATEMENT

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS (continued)

Recommendation 3.3: *Companies should provide the information indicated in the "Guide to Reporting on Principle 3".*
The Company has made available a summary of its Code of Conduct and trading policy in this statement, but has not otherwise made this information publicly available.

Recommendation 5.1: *Companies should establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.*
The Company has adopted a continuous disclosure policy, which reflects policies that were in place during the reporting year.

Recommendation 5.2: *Companies should provide the information indicated in "Guide to Reporting on Principle 5".*
The Company has provided a summary of its continuous disclosure policy in this statement.

Recommendation 6.1: *Companies should design and disclose a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.*
The Company has adopted a communications policy, which reflects policies that were in place during the reporting year.

Recommendation 6.2: *Companies should provide the information indicated in the "Guide to reporting on Principle 6:.*
The Company has provided a summary of its communication with shareholders in this statement.

Recommendation 7.1: *Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.*
The Board has established policies on risk oversight and management.

Recommendation 7.2: *The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.*
The Company complies with this requirement.

Recommendation 7.3: *The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.*
The Company complies with this requirement.

Recommendation 7.4: *Companies should provide the information indicated in the "Guide to Reporting on Principle 7".*
The Company has provided relevant information in this statement upon recognising and managing risk.

Recommendation 8.2: *Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.*
The distinction between non-executive and executive remuneration is detailed above.

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS (continued)

Recommendation 8.3: Provide the information indicated in "Guide to reporting on Principle 8".
One of the matters to be included in the corporate governance section of the annual report pursuant to the *Guide to reporting on Principle 8* is "*there is a clear relationship between performance and remuneration, and that the policy underlying executive remuneration be understood by investors*".
These are included in the director's report.

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 1.2: Companies should disclose the process for evaluating the performance of senior executives
Other than the Board of Directors there are currently no other senior executives

Recommendation 2.4: The board should establish a nomination committee.

The functions to be performed by a nomination committee under the ASX Corporate Governance Principles and Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Recommendation 4.1: The board should establish an audit committee.
Recommendation 4.2: The audit committee should be structured so that it:
- *4.2.1 consists only of non-executive directors*
- *4.2.2 consists of a majority of independent directors*
- *4.2.3 is chaired by an independent chair, who is not chair of the board*
- *4.2.4 has at least three members.*

Recommendation 4.3: The audit committee should have a formal charter.
Recommendation 4.4: Companies should provide the information indicated in the "Guide to reporting on Principle 4".

The functions to be performed by an audit committee under the ASX Corporate Governance Principles and Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee of the Board, however meetings are held between senior management and the auditors throughout the year to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto. In doing so, the Board also adheres to the Company's Code of Conduct and procedures to ensure independent judgement in decision making, as set out in relation to ASX Corporate Governance Principles and Recommendation 2.1. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Recommendation 8.1: The board should establish a remuneration committee.
The functions to be performed by a remuneration committee under the ASX Corporate Governance Principles and Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

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

To: the directors of Xstate Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2008 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

J G Robinson
Partner

Perth

27 February 2009

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

		Consolidated		Company	
		2008	2007 Restated	2008	2007 Restated
	Notes	$	$	$	$
Other income	7	-	234	-	234
Personnel expenses	8	(260,178)	(291,219)	(260,178)	(291,219)
Administrative expenses	9	(72,369)	(132,219)	(37,804)	(108,846)
Other expenses	10	(2,525,780)	(154,117)	(2,333,829)	(557,230)
Loss from operating activities		**(2,858,327)**	**(577,321)**	**(2,631,811)**	**(957,061)**
Finance income	11	882,480	165,033	149,613	161,625
Finance expense	11	-	(403,058)	-	-
Net finance income / expense		**882,480**	**(238,025)**	**149,613**	**161,625**
Loss before income tax		(1,975,847)	(815,346)	(2,482,198)	(795,436)
Income tax expense	12	-	-	-	-
Loss for the year		(1,975,847)	(815,346)	(2,482,198)	(795,436)
Loss attributable to equity holders of the company		**(1,975,847)**	**(815,346)**	**(2,482,198)**	**(795,436)**
Loss per share					
Basic and diluted (cents per share)	19	(3.59)	(1.49)		

The notes on pages 25 to 51 are an integral part of these financial statements.

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

BALANCE SHEETS
AS AT 31 DECEMBER 2008

	Notes	Consolidated 2008 $	Consolidated 2007 $ (Restated)	Company 2008 $	Company 2007 $ (Restated)
Current assets					
Cash and cash equivalents	17	3,347,890	4,684,429	2,858,098	2,337,977
Trade and other receivables	15	29,977	34,673	29,977	34,673
Total current assets		**3,377,867**	**4,719,102**	**2,888,075**	**2,372,650**
Non-current assets					
Trade and other receivables	15	-	117,324	489,356	3,448,879
Other investments	16	-	-	129	129
Exploration and evaluation expenditure	13	-	987,670	-	-
Total non-current assets		**-**	**1,104,994**	**489,485**	**3,449,008**
Total assets		**3,377,867**	**5,824,096**	**3,377,560**	**5,821,658**
Current liabilities					
Trade and other payables	22	41,208	34,481	40,773	31,914
Employee benefits	20	1,378	10,558	1,378	10,558
Total current liabilities		**42,586**	**45,039**	**42,151**	**42,472**
Total liabilities		42,586	45,039	42,151	42,472
Net assets		**3,335,281**	**5,779,057**	**3,335,409**	**5,779,186**
Equity					
Issued capital	18(a)	31,884,265	31,884,265	31,884,265	31,884,265
Reserves	18(b)	(356,013)	111,916	130,339	91,918
Accumulated losses		(28,192,971)	(26,217,124)	(28,679,195)	(26,196,997)
Total Equity		**3,335,281**	**5,779,057**	**3,335,409**	**5,779,186**

The notes on pages 25 to 51 are an integral part of those financial statements.

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Issued capital $	Accumulated losses $	Reserves $	Total $
COMPANY					
At 1 January 2008 (restated)		**31,884,265**	**(26,196,997)**	**91,918**	**5,779,186**
Loss for the year		-	(2,482,198)	-	(2,482,198)
Total recognised income and expense		**-**	**(2,482,198)**	**-**	**(2,482,198)**
Cost of share-based payments		-	-	38,421	38,421
At 31 December 2008		**31,884,265**	**(28,679,195)**	**130,339**	**3,335,409**
As at 1 January 2007		**31,554,265**	**(25,385,893)**	**-**	**6,168,372**
Correction of error	28	-	(15,668)	-	(15,668)
As at 1 January 2007 (restated)		**31,554,265**	**(25,401,561)**	**-**	**6,152,704**
Loss for the year		-	(795,436)	-	(795,436)
Total recognised income and expense		**-**	**(795,436)**	**-**	**(795,436)**
Cost of share-based payments		-	-	91,918	91,918
Issue of ordinary shares		330,000	-	-	330,000
At 31 December 2007 (restated)		**31,884,265**	**(26,196,997)**	**91,918**	**5,779,186**

The notes on pages 25 to 51 are an integral part of these financial statements.

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Issued capital $	Accumulated losses $	Reserves $	Total $
CONSOLIDATED					
At 1 January 2008 (restated)		**31,884,265**	**(26,217,124)**	**111,916**	**5,779,057**
Foreign currency translation reserve		-	-	(506,350)	(506,350)
Income and expense recognised directly in equity		-	-	(506,350)	(2,452,197)
Loss for the year		-	(1,975,847)	-	(1,975,847)
Total recognised income and expense		**-**	**(1,975,847)**	**(506,350)**	**(2,482,197)**
Cost of share-based payments		-	-	38,421	38,421
At 31 December 2008		**31,884,265**	**(28,192,971)**	**(356,013)**	**3,335,281**
At 1 January 2007 (restated)		**31,554,265**	**(25,401,778)**	**88**	**6,152,575**
Foreign currency translation reserve		-	-	19,910	19,910
Income and expense recognised directly in equity		-	-	19,910	19,910
Loss for the year		-	(815,346)	-	(815,346)
Total recognised income and expense		**-**	**(815,346)**	**19,910**	**(795,436)**
Cost of share-based payments		-	-	91,918	91,918
Issue of ordinary shares		330,000	-	-	330,000
At 31 December 2007 (restated)		**31,884,265**	**(26,217,124)**	**111,916**	**5,779,057**

The notes on pages 25 to 51 are an integral part of these financial statements.

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Consolidated 2008 $	Consolidated 2007 (Restated) $	Company 2008 $	Company 2007 (Restated) $
Cash flows from operating activities					
Payments to suppliers and employees		(835,808)	(490,861)	(411,473)	(467,488)
Net cash used in operating activities	**17(b)**	**(835,808)**	**(490,861)**	**(411,473)**	**(467,488)**
Cash flows from investing activities					
Interest received		156,238	152,955	152,182	149,547
Payments for exploration, evaluation and development		(996,754)	(807,351)	-	-
Receipt of loan repayment		-	-	779,412	-
Net cash (used in) from investing activities		**(840,516)**	**(654,396)**	**931,594**	**149,547**
Cash flows from financing activities					
Proceeds from issue of shares and options		-	330,000	-	330,000
Payment to related entity		-	(25,514)	-	(25,514)
Receipts from / (payments for) environmental bonds		117,324	(117,324)	-	-
Net cash provided by financing activities		**117,324**	**187,162**	**-**	**304,486**
Net increase / (decrease) in cash and cash equivalents		**(1,559,000)**	**(958,095)**	**520,121**	**(13,455)**
Cash and cash equivalents at the beginning of the financial period		4,684,429	6,025,672	2,337,977	2,351,432
Adjustment to prior year closing cash balance					
Effects of exchange rate fluctuations on cash held		222,461	(383,148)	-	-
Cash and cash equivalents at the end of the financial year	**17(a)**	**3,347,890**	**4,684,429**	**2,858,098**	**2,337,977**

The notes on pages 25 to 51 are an integral part of these financial statements.

1. REPORTING ENTITY

XState Resources Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Level 2, 45 Stirling Highway, Nedlands, Western Australia, 6009. The consolidated financial statements of the Company as at and for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group Entities"). The Group operates predominantly in the uranium mining and exploration industry in the United States of America ("USA") and Australia.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The Group's and Company's financial report also complies with International Financial Reporting Standards (IFRS's) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of the Directors on 27 February 2009.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

The Group's financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and 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 accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described as follows:

Impairment of assets
The recoverable amount of each cash generating unit is subject to a successful exploration program. Although sufficient data exists to indicate that development may proceed in the future, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development.

Share-based payments
As set out in Note 21, share-based payments have been calculated at fair value using the Black & Scholes method and have been recognised as either an employee or professional expense, according to its nature.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) ***Subsidiaries***

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

In the Company's financial statements, investments in subsidiaries are carried at cost.

(ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(i) Foreign operations

The assets and liabilities of foreign operations, and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. Income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity. Such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments

(i) Non-Derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measureable as describe below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instruments. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharge or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in Note 3(g).

(ii) Share capital

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

Dividends
Dividends are recognised as a liability in the period in which they are declared.

(d) Impairment

(i) *Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Impairment (continued)

(ii) ***Non-financial assets***

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are 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.

(e) Employee entitlements

(i) ***Defined contribution plans***

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contributions plans are recognised as a personnel expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) ***Share-based payment transactions***

The share option programme allows Group employees to acquire shares of the Company. The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period during that employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black & Scholes formula, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

(f) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the true value of money and the risks specific to the liability.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Finance income and expense

Finance income comprises interest income on funds invested and foreign exchange gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise foreign exchange losses on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(h) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable profit or tax loss for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by reporting date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that is it no longer probable that the related benefit will be realised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are recognised with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(j) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the net profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises share options granted to employees.

(k) Exploration and evaluation

In accordance with AASB 6 “Exploration for and Evaluation of Mineral Resources”, exploration and evaluation costs are accumulated in respect of each separate area of interest. Exploration and evaluation expenditure are carried forward at cost where the rights of tenure are current and either:

(i) Such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or

(ii) Exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable resources and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets will be assessed annually for impairment in accordance with AASB 6, and where impairment indicators exist, recoverable amounts of these assets will be estimated based on discounted cash flows from their associated cash generating units. The income statement will recognise expenses arising from excess of the carrying values of exploration and evaluation assets over the recoverable amounts of these assets.

In the event that an area of interest is abandoned or if the Directors consider the expenditure to be of reduced value, accumulated costs carried forward are written off in the period in which that assessment is made. Each area of interest is reviewed at the end of each accounting period and accumulated costs are written off to the extent that they will not be recoverable in the future.

(l) Segment reporting

A segment is a distinguishable component of the Group and the Company that is engaged either in providing related products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments.

The Company operates predominantly in the uranium mining and exploration industry in the United States of America (“USA”) and Australia.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 31 August 2008, but have not been applied in preparing this financial report.

- *AASB 3 Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interest. Key changes include: the immediate expensing of all transaction costs; measurements of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutual's. The revised standard becomes mandatory for the Group's 31 December 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.

- *AASB 8 Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Company's 31 December 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (Note 6). The Group does not believe that the effects of the new standard will be significant as it operates in one segment.

- *Revised AASB 101 Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Company's 31 December 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Company's disclosures.

- *AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations* changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Group's 31 December 2010 financial statements. The Group's has not yet determined the potential effect of the amending standard on the Group's financial report.

  AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group 31 December 2010 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The Group has not yet determined the potential effect of the revised standard on future earnings.

- *Revised AASB 127 Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is being obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 31 December 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.

4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Trade and other receivables
Trade and other receivables are short-term in nature. As a result, the fair value of these instruments is considered to approximate its carrying value.

Exploration and development acquired
The fair value of exploration and evaluation expenditure acquired has been determined with reference to market values for reserves and resources acquired.

Non-derivative financial liabilities
Trade and other payables are short term in nature. As a result, the fair value of these instruments is considered to approximate its carrying value.

Share-based payment transactions
The fair value of employee stock options is measured using the Black and Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

5. FINANCIAL RISK MANAGEMENT

The Company and Group have exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Company and 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 Company and Group's activities.

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, and arises principally from the Group's receivables from customers and investment securities. For the Company it arises from receivables due from subsidiaries.

The Group undertook exploration and evaluation activities exclusively in the USA. At the balance sheet date there were no significant concentrations of credit risk.

Cash and cash equivalents
The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating.

5. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Trade and 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.

The Company and Group have established an allowance for impairment that represents their estimate of incurred losses in respect of intercompany loans and receivables and investments. Management does not expect any counterparty to fail to meet its future obligations.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to maintain, as far as possible, sufficient cash and marketable securities, and the availability of funding through adequate committed credit facilities, to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates 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.

Currency Risk

The Group is exposed to currency risks on intercompany loans that are denominated in a currency other than the respective functional currencies of Group entities, which is primarily the Australian dollar (AUD). The currencies in which these transactions primarily are denominated are AUD and USD (see note 23(d) for sensitivity analysis).

The Group has not entered into any derivative financial instruments to hedge such transactions.

Interest Rate Risk

The Group has interest rate risk relating to its funds on deposit with banking institutions. The Group does not hedge their exposure (see note 23(b) for sensitivity analysis).

Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. The Group's focus has been to raise sufficient funds through equity to fund exploration and evaluation activities.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor its subsidiary are subject to externally imposed capital requirements.

6. SEGMENT REPORTING

The Group operates predominantly in the uranium mining and exploration industry in the USA and Australia.

In presenting information on the basis of geographical segments, each segment is based on the geographical location of its operation.

	Australia		USA		Consolidated	
	2008	2007 Restated	2008	2007 Restated	2008	2007 Restated
	$	$	$	$	$	$
Profit / (Loss)	(302,086)	(392,323)	(1,673,761)	(423,023)	(1,975,847)	(815,346)
Segment assets	2,888,076	2,372,650	489,791	3,451,446	3,377,867	5,824,096
Segment liabilities	42,151	42,472	435	2,567	42,586	45,039

	Notes	Consolidated 2008 $	Consolidated 2007 $ (Restated)	Company 2008 $	Company 2007 $ (Restated)
7. OTHER INCOME					
Other		-	234	-	234
		-	234	-	234
8. PERSONNEL EXPENSES					
Directors' remuneration		179,176	161,956	179,176	161,956
Other associated personnel expenses		32,415	26,934	32,415	26,934
Contributions to defined contributions plans		10,954	10,456	10,954	10,456
Decrease in liability for annual leave		(788)	(45)	(788)	(45)
Equity- settled share based payment transactions		38,421	91,918	38,421	91,918
		260,178	291,219	260,178	291,219

		Notes	Consolidated 2008 $	Consolidated 2007 Restated $	Company 2008 $	Company 2007 Restated $
9.	**ADMINISTRATIVE EXPENSES**					
	Advertising and publicity		311	22,615	311	22,615
	Communication and information services		4,361	5,044	4,361	5,044
	Office administration		43,028	35,235	8,661	11,936
	Bank charges		482	294	284	220
	Share registry and statutory fees		24,187	69,031	24,187	69,031
			72,369	132,219	37,804	108,846
10.	**OTHER EXPENSES**					
	Professional fees		153,718	142,243	153,718	142,243
	Exploration expenditure written off	(i)	1,984,424	-	-	-
	Contract breaking fee		351,658	-	-	-
	Impairment of inter company loan		-	-	2,180,111	403,113
	Other expenses		-	11,874	-	11,874
	Site restoration expense		35,980	-	-	-
			2,525,780	154,117	2,333,829	557,230

(i) During the year the “earn-in” agreement was terminated by both parties entering into a formal 50/50 contributing joint venture resulting in the impairment on the capitalised exploration costs.

		Consolidated 2008 $	Consolidated 2007 Restated $	Company 2008 $	Company 2007 Restated $
11.	**FINANCE INCOME AND EXPENSE**				
	Finance income				
	Interest income on bank deposits	153,669	165,033	149,613	161,625
	Net foreign exchange gain	728,811	-	-	-
		882,480	165,033	149,613	161,625
	Finance expense				
	Net foreign exchange loss	-	403,058	-	-
		-	403,058	-	-
	Net finance income / (expense)	882,480	(238,025)	149,613	161,625

	Notes	Consolidated 2008 $	Consolidated 2007 Restated $	Company 2008 $	Company 2007 Restated $
12. INCOME TAX EXPENSE					
Recognised in the income statement					
Current income tax benefit		(109,007)	(216,388)	(87,327)	(210,415)
Deferred tax expense		109,007	216,388	87,327	210,415
Income tax expense reported in the income statement		-	-	-	-
Reconciliation between tax expenses and pre-tax accounting loss					
Accounting loss for the period before income tax		(1,975,848)	(815,346)	(2,482,198)	(795,436)
Income tax using the domestic corporations tax rate of 30% (2007:30%)		(592,754)	(244,604)	(744,659)	(238,631)
Increase /(decrease) in income tax expenses due to:					
Non-deductible expenses		481,180	27,575	665,560	27,575
Tax losses not brought to account		111,574	217,029	79,099	211,056
Income tax expense reported in the income Statement		-	-	-	-
Tax losses					
Unused tax losses for which no deferred tax asset has been recognised		1,318,333	1,374,387	1,226,440	935,351
Potential tax benefit at 30% (2007:30%)		395,650	412,316	367,932	280,605

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits of $395,650 (2007: $412,316) attributable 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 legislation continue to be complied with, and

iii) no changes in tax legislation adversely affect the Company in realising the benefit.

iv) Satisfaction of either the continuity of ownership or the same business test.

	Notes	Consolidated 2008 $	Consolidated 2007 (Restated) $	Company 2008 $	Company 2007 (Restated) $
13. EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE					
Costs carried forward in respect of areas of interest – Exploration phase		-	987,670	-	-
Opening balance		987,670	203,994	-	-
Exploration for the period		996,754	783,676	-	-
Impairment loss on exploration tenements	10	(1,984,424)	-	-	-
		-	987,670	-	-
14. DEFERRED TAX ASSETS					
Unrecognised deferred tax assets and liabilities attributable to the following:					
Trade and other receivables		(2,853)	(7,247)	(2,853)	(3,623)
Blackhole deductible costs (s40 -880)		17,131	24,894	17,131	24,894
Trade and other payables		3,000	4,500	3,000	4,500
Employee benefits		413	3,167	413	3,167
Unrecognised tax loses		395,650	412,316	367,932	280,605
		413,341	437,630	385,623	309,543

The Company does not recognise deferred tax assets as it is not probable that sufficient taxable amounts will be available in future periods in which to be offset.

	Notes	Consolidated 2008 $	Consolidated 2007 (Restated) $	Company 2008 $	Company 2007 (Restated) $
15. TRADE AND OTHER RECEIVABLES					
Current					
Accrued interest income		9,508	12,078	9,508	12,078
GST refundable		6,751	5,965	6,751	5,965
Prepayments		13,718	16,630	13,718	16,630
		29,977	34,673	29,977	34,673
Non-current					
Restricted cash – environmental bonds		-	117,324	-	-
Receivables due from subsidiary		-	-	489,356	3,448,879
		-	117,324	489,356	3,448,879

	Notes	Consolidated 2008 $	Consolidated 2007 (Restated) $	Company 2008 $	Company 2007 (Restated) $
16. OTHER INVESTMENTS					
Investment in XState Arizona Inc		-	-	129	129
		-	-	129	129

17. CASH AND CASH FLOWS EQUIVALENTS

(a) Reconciliation of cash and cash equivalents

For the purpose of the statement of cash flow statement, cash and cash equivalents includes cash at banks. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows reconciled to the related item in the balance sheet as follows:

	Notes	Consolidated 2008 $	Consolidated 2007 (Restated) $	Company 2008 $	Company 2007 (Restated) $
Bank balances		3,347,890	4,684,429	2,858,098	2,337,977
Cash and cash equivalents in the statement of cash flows		3,347,890	4,684,429	2,858,098	2,337,977

The perceived credit risk is low as cash and cash equivalents are with authorised deposit banking institutions. The Group's exposure to interest rate risk and sensitivity analysis is for the financial assets and liabilities are disclosed in Note 23 (b).

(b) Reconciliation of cash flows from operating activities

	Consolidated 2008 $	Consolidated 2007 (Restated) $	Company 2008 $	Company 2007 (Restated) $
Net loss for the period	(1,975,847)	(815,346)	(2,482,198)	(795,436)
Adjustments for:				
Equity-settled share-based payment transactions	38,421	91,918	38,421	91,918
Impairment of intercompany loan	-	-	2,180,111	403,113
Interest income	(153,669)	(165,033)	(149,613)	(161,625)
Net (gain) / loss on foreign exchange translations	(728,811)	403,058	-	-
Exploration expenditure written off	1,984,424	-	-	-
Operating loss before changes in working capital and provisions	(835,482)	(485,403)	(413,279)	(462,030)
Changes in assets and liabilities				
Changes in trade and other receivables	2,126	52,669	2,127	52,669
Changes in trade and other payables	6,728	(66,474)	8,859	(66,474)
Changes in provisions and employee benefits	(9,180)	8,347	(9,180)	8,347

Net cash used in operating activities	(835,808)	(490,861)	(411,473)	(467,488)

	Notes	Consolidated and Company 2008 $	2007 $

18. CAPITAL AND RESERVES

(a) Issued and paid-up share capital

		2008 $	2007 $
55,079,593 (2007: 55,079,593) fully paid ordinary shares		31,884,265	31,884,265

Reconciliation of movements in issued capital

		2008 $	2007 $
Balance at the beginning of the financial year		31,884,265	31,554,265
Share issues:			
- Exercise of 1,650,000 options at a value of 20 cents each		-	330,000
		31,884,265	31,884,265

Terms and conditions

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

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

18. CAPITAL AND RESERVES (continued)

	Consolidated		Company	
	2008 $	2007 $ (Restated)	2008 $	2007 $ (Restated)
(b) Reserves				
Equity-settled benefits reserve	130,339	91,918	130,339	91,918
Foreign currency translation reserve	(486,352)	19,998	-	-
	(356,013)	111,916	130,339	91,918

Reconciliation of movements in reserves for the year

Equity-settled benefits reserve				
Balance at beginning of the year	91,918	-	91,918	-
Cost of share-based payment	38,421	91,918	38,421	91,918
Balance at end of year	130,339	91,918	130,339	91,918
Foreign currency translation reserve				
Balance at beginning of year	19,998	88	-	-
Foreign currency movements	(506,350)	19,910	-	-
Balance at end of year	(486,352)	19,998	-	-

Equity-settled benefits reserve
The equity-settled benefits reserve represents the cost of options that have been granted as share-based payments but not exercised. This reserve will be reversed should these options be exercised, expired or forfeited.

Foreign currency translation reserve
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

19. LOSS PER SHARE

The calculation of basic loss per share at 31 December 2008 was based on the loss attributable to ordinary Shareholders of $ 1,975,847 (2007: $815,346), and a weighted average number of ordinary shares outstanding of 55,079,593 (2007: 54,769,251) calculated as follows:

	Consolidated 2008 $	Consolidated 2007 (Restated) $
Loss for the year	(1,975,847)	(815,346)

	Consolidated 2008 Number	Consolidated 2007 Number
Weighted average number of ordinary shares (basic)		
Issued ordinary shares at 1 January	55,079,593	53,429,593
Effect of shares issued during the year	-	1,339,658
Weighted average number of ordinary shares (basic) at 31 December	55,079,593	54,769,251

The calculation of diluted loss per share as as at 31 December 2008 was based on the loss attributable to ordinary shareholders of $1,975,847 (2007:$815,346) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all diluted potential ordinary shares of 55,079,593 (2007: 54,769,251), calculated as follows:

	Number	Number
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares at 31 December	55,079,593	54,769,251
Effect of share options on issue	-	-
Weighted average number of ordinary shares (diluted) at 31 December	55,079,593	54,769,251

The diluted loss per share does not take into account the options as these have an anti-dilutive effect.

20. EMPLOYEE BENEFITS

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Current				
Provisions for annual leave	1,378	2,166	1,378	2,166
Superannuation accrued	-	8,392	-	8,392
	1,378	10,558	1,378	10,558

21. SHARE-BASED PAYMENT PLANS

Options – 30 May 2007

On 30 May 2007 1,000,000 options were granted to Mr Grivas. These options were issued as an incentive to secure the ongoing commitment of Mr Grivas to the continued growth of the Company. The options were issued for nil consideration.

The options have been granted on the following terms and conditions:

Tranche	Number	Exercise price	Grant date	Vesting date	Expiry date
1	300,000	50 cents	30 May 2007	30 May 2007	30 April 2012
2	350,000	65 cents	30 May 2007	29 May 2008	30 April 2012
3	350,000	75 cents	30 May 2007	29 May 2009	30 April 2012

The fair value of the equity-settled options was estimated using the Black & Scholes pricing model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model:

	Tranche 1	Tranche 2	Tranche 3
Expected volatility	80%	80%	80%
Risk-free interest rate	6.14%	6.14%	6.14%
Life of option	5 years	5 years	5 years
Exercise price	50 cents	65 cents	75 cents
Fair value of options	14.9 cents	13.5 cents	12.7 cents

Based on these inputs, the options have been valued at $136,400. Of this amount $38,421 has been expensed to the income statement in "employee benefits expense" in the year. The value of each tranche of options is amortised over their vesting periods.

All options remain unexercised at 31 December 2008.

Weighted average number of shares

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price 2008	Number of options 2008	Weighted average exercise price 2007	Number of options 2007
Outstanding at 1 January	$0.64	1,000,000	$0.20	6,725,000
Forfeited during the period	-	-	$0.20	(5,075,000)
Exercised during the period	-	-	$0.20	(1,650,000)
Granted during the period	-	-	$0.64	1,000,000
Outstanding at 31 December	$0.64	1,000,000	$0.64	1,000,000
Exercisable at 31 December	$0.58	650,000	$0.58	300,000

The options outstanding at 31 December 2008 have an exercise price in the range of $0.50 to $0.75 (2007: $0.20 to $0.75) and a weighted average contractual life of 4.02 years (2007: 4.03 years).

22. TRADE AND OTHER PAYABLES

	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Trade payables	23,007	16,592	22,572	14,025
Other payables	3,293	2,889	3,293	2,889
Accruals	14,908	15,000	14,908	15,000
	41,208	34,481	40,773	31,914

23. FINANCIAL INSTRUMENTS

(a) Credit risk

Exposure to credit risk
The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Notes	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Trade and other receivables	15	29,977	34,673	519,333	3,483,552
Cash and cash equivalents	17	3,347,890	4,684,429	2,858,098	2,337,977
Environmental bonds	15	-	117,324	-	-
		3,377,867	4,836,426	3,377,431	5,821,529

None of the Group's receivables are past due.

A bad debt expense of $2,180,111 has been made against the loan due from the subsidiary in the Company accounts.

(b) Interest rate risk

Profile
At the reporting date the interest rate profile of the Company's and Group's interest bearing financial instruments was:

	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Variable rate instruments				
Cash and cash equivalents	2,858,098	2,337,977	2,858,098	2,337,977
Bonds – restricted cash	-	117,324	-	-
	2,858,098	2,455,301	2,858,098	2,337,977

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.

23. FINANCIAL INSTRUMENTS (continued)

(b) Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased or decreased the Group's equity and profit and loss by the amount shown below. This analysis assumes that all variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

	Profit or loss	
	100bp increase	**100bp decrease**
31 December 2008		
Consolidated		
Variable rate instruments	28,581	(28,581)
Company		
Variable rate instruments	28,581	(28,581)
31 December 2007		
Consolidated		
Variable rate instruments	24,553	(24,553)
Company		
Variable rate instruments	23,380	(23,380)

(c) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements.

	Carrying amount	**Contractual cashflows**	**6 months Or less**	**6 – 12 months**	**< 1 > 5 Years**	**> 5 years**
31 December 2008						
Consolidated						
Trade and other payables	41,208	(41,208)	(41,208)	-	-	-
	41,208	(41,208)	(41,208)	-	-	-
Company						
Trade and other payables	40,773	(40,773)	(40,773)	-	-	-
	40,773	(40,773)	(40,773)	-	-	-
31 December 2007						
Consolidated						
Trade and other payables	34,481	(34,481)	(34,481)	-	-	-
	34,481	(34,481)	(34,481)	-	-	-
Company						
Trade and other payables	31,914	(31,914)	(31,914)	-	-	-
	31,914	(34,481)	(31,914)	-	-	-

23. FINANCIAL INSTRUMENTS (continued)

(d) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters. The company is not exposed to foreign currency risk.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Liabilities		**Assets**	
	2008	**2007 (Restated)**	**2008**	**2007 (Restated)**
US dollar	435	3,870,356	489,791	2,463,776

Foreign currency sensitivity analysis

The Group is exposed to US dollars (USD). The following table details the Group's sensitivity to a 10% 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 period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss where the Australian dollar strengthens against the respective currency.

	Impact on profit and loss and equity Consolidated	
	2008	**2007 (Restated)**
If AUD strengthens by 10%		
USD	(44,487)	(575,830)
If AUD weakens by 10%		
USD	54,373	703,792

There would be no impact on other equity of the Company and the Group

(e) Fair values of financial assets and liabilities

The fair values of the financial assets and liabilities at balance date of the Group and the Company approximate the carrying amounts in the financial statements.

24. RELATED PARTIES

(a) Key management personnel compensation

The key management personnel compensation is as follows:

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Short-term employees benefits	211,591	188,890	211,591	188,890
Post employment benefits	10,954	10,456	10,954	10,456
Share-based payments	38,421	91,918	38,421	91,918
	260,966	291,264	260,966	291,264

Individual directors and executives compensation

Information regarding individual directors and executive's compensation and some equity instruments disclosures as permitted by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the directors' report.

(b) Equity instruments

(i) Movement in options

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

	* Held at beginning of period	Granted as incentive	Exercised	Sales	Expired / cancelled	** Held at end of period
2008						
David McArthur	-	-	-	-	-	-
Rhod Grivas	1,000,000	-	-	-	-	1,000,000
Ross Kestel	-	-	-	-	-	-
Total	**1,000,000**	**-**	**-**	**-**	**-**	**1,000,000**
2007						
David McArthur	625,000	-	-	-	(625,000)	-
Rhod Grivas	-	1,000,000	-	-	-	1,000,000
Ross Kestel	-	-	-	-	-	-
Doug Wood	625,000	-	-	-	(625,000)	-
Total	**1,250,000**	**1,000,000**	**-**	**-**	**(1,250,000)**	**1,000,000**

24. RELATED PARTIES (continued)

(b) Equity instruments (continued)

(ii) Movement in shares

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

	* Held at beginning of period	Purchases	Received on exercise of options	Sales	Other changes	Held at end of period
2008						
David McArthur	2,300,000	535,000	-	(955,500)	-	1,879,500
Rhod Grivas	130,000	-	-	-	-	130,000
Ross Kestel	-	-	-	-	-	-
Total	**2,430,000**	**535,000**	**-**	**(955,500)**	**-**	**2,009,500**

* Or date of appointment.
** Or date of resignation.

	* Held at beginning of period	Purchases	Received on exercise of options	Sales	Other changes	** Held at end of period
2007						
David McArthur	1,300,000	1,000,000	-	-	-	2,300,000
Rhod Grivas	130,000	-	-	-	-	130,000
Doug Wood	1,543,000	758,000	-	(758,000)	-	1,543,000
Ross Kestel	-	-	-	-	-	-
Total	**2,973,000**	**1,758,000**	**-**	**(758,000)**	**-**	**3,973,000**

* Or date of appointment.
** Or date of resignation.

Transactions with non-key management personnel
Company secretarial work and financial services of $ 61,250 (2007: $50,000) was paid to Broadway Management Pty Ltd, a company associated with David McArthur.

25. GROUP ENTITIES

Name	Place of incorporation	Financial year end	2008 %	2007 %
Parent entity				
XState Resources Limited	Australia	31 December		
Subsidiary				
XState Resources (Arizona) Inc	USA	31 December	100	100

26. SUBSEQUENT EVENTS

There has not been any matter of circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

27. AUDITORS' REMUNERATION

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Audit services				
Auditors of the Company KPMG Australia - audit and review of financial reports	67,572	40,634	67,572	40,634
Auditors of XSTAI - Semple, Marchal, Cooper (USA) - audit and review of financial reports	6,622	-	6,622	-
	74,194	40,634	74,194	40,634
Other services				
Auditors of the Company KPMG Australia - tax advice	5,500	10,500	5,500	10,500
Tax advisers of XSTAI - Beach, Fleischman & Co (USA) - tax advice	2,622	-	2,622	-
	8,122	10,500	8,122	10,500

28. CORRECTION OF ERROR

XState Arizona Inc (XSTAI), a wholly owned subsidiary of the Company had entered into a Joint Venture farm-in (the Elle agreement) whereby XSTAI agreed to contribute US$2.9 million to earn a 50% interest.

At 31 December 2007 cash transferred by the Company for the Elle Joint Venture was recognised as an investment in equity accounted investee at cost.

Subsequent clarification of the legal rights pursuant to the Elle agreement have identified that recognition of an interest in an equity accounted investee was an error; rather; the appropriate treatment should have been the recognition of the investment in its subsidiary XSTAI and its capitalised exploration expenditure.

The effect on the company balance sheet is the recognition of the investment in XSTAI of $129, loan receivable from XSTAI of $3,448,881 (net of impairment loss of $418,910) and the reversal of the equity accounted investment in Elle JV. The net effect on the correction of error on the company balance sheet is a reduction in net assets of $408,798 (2006: $15,668). The net effect on the income statement of the company is an increase in the loss for the year of $393,130 consisting of the impairment charge on the loan receivable from XSTAI of $403,113 and reversal of share of loss in equity accounted investee of $9,983.

The effect in the financials of the Consolidated Entity is the recognition of capitalised exploration expenditure in XSTAI of $987,670, cash in XSTAI of $2,346,452 and loss on the foreign currency loan payable in XSTAI of $403,058 reflected as finance expense in the consolidated income statement. The net effect on the consolidated balance sheet compared to the restated company level balance sheet is $129 whereas the net effect on the consolidated income statement compared to the restated company level income statement is $19,910, being net corporate expenses of XSTAI.

28. CORRECTION OF ERROR (continued)

The balance sheet effect is as follows:

BALANCE SHEET	31 December 2007 Company $	31 December 2007 Restated Company $	31 December 2007 Restated Consolidated $
CURRENT ASSETS			
Cash and cash equivalents	2,337,977	2,337,977	4,684,429
Trade and other receivables	34,673	34,673	34,673
TOTAL CURRENT ASSETS	**2,372,650**	**2,372,650**	**4,719,102**
NON-CURRENT ASSETS			
Trade and other receivables	-	3,449,008	117,324
Investments in equity accounted investees	3,857,807	-	-
Exploration and evaluation expenditure	-	-	987,670
TOTAL NON-CURRENT ASSETS	**3,857,807**	**3,449,008**	**1,104,994**
TOTAL ASSETS	**6,230,457**	**5,821,658**	**5,824,096**
CURRENT LIABILITIES			
Trade and other payables	31,914	31,914	34,481
Employee benefits	10,558	10,558	10,558
TOTAL CURRENT LIABILITIES	**42,472**	**42,472**	**45,039**
NET ASSETS	**6,187,985**	**5,779,186**	**5,779,057**
EQUITY			
Issued Capital	31,884,265	31,884,265	31,884,265
Reserves	91,918	91,918	111,916
Accumulated loss	(25,788,198)	(26,196,997)	(26,217,124)
TOTAL CURRENT LIABILITIES	**6,187,985**	**5,779,186**	**5,779,057**

28. CORRECTION OF ERROR (continued)

The income statement effect is as follows:

	31 December 2007 Company $	31 December 2007 Restated Company $	31 December 2007 Restated Consolidated $
INCOME STATEMENT			
Other income		234	234
Personnel expenses	(291,219)	(291,219)	(291,291)
Administration expenses	(108,845)	(108,846)	(132,219)
Other expenses	(154,117)	(557,230)	(154,117)
	(554,181)	(957,061)	(577,321)
Finance income	161,859	161,625	165,033
Finance expense	-	-	(403,058)
	161,859	161,625	(238,025)
Share of loss of equity accounted investee	(9,983)	-	-
Loss before income tax	**(402,305)**	**(795,436)**	**(815,346)**
Loss per share			
Basic and diluted (cents per share)	(0.73)	(1.45)	(1.49)

XSTATE RESOURCES LIMITED
ABN 96 009 217 154
DIRECTORS' DECLARATION

1. In the opinion of the directors of XState Resources Limited ("the Company"):

   (a) the financial statements and notes and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, set out on pages 25 to 51, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the financial position of the Company's and Group's financial position as at 31 December 2008 and of their performance, for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

   (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a);

   (c) the remuneration disclosures that are contained in the Remuneration Report in the directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures, the Corporations Act 2001 and the Corporations Regulations 2001; and

   (d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 31 December 2008.

Signed in accordance with a resolution of the directors.

D McArthur

D M McARTHUR
Director

Dated at Perth this 27th day of February 2009.

KPMG

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

Report on the financial report

We have audited the accompanying financial report of Xstate Resources Limited (the Company), which comprises the balance sheets as at 31 December 2008, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 28 and the directors' declaration set out on page 52 of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2a, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

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

KPMG

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Xstate Resources Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2008 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2a.

Report on the remuneration report

We have audited the Remuneration Report included in pages 4 to 7 of the directors' report for the year ended 31 December 2008. 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 auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Xstate Resources Limited for the year ended 31 December 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

J G Robinson

Partner

Perth

27 February 2009

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

STOCK EXCHANGE INFORMATION

The following information is provided in accordance with the Listing Rules of Australian Stock Exchange Limited.

1. SHAREHOLDER INFORMATION

(a) Distribution of holders at 25 February 2009

			Fully paid ordinary shares
Number of Holders			1,218
Distribution is:			
1	-	1,000	656
1,001	-	5,000	128
5,001	-	10,000	105
10,001	-	100,000	242
100,001	and	Over	87
			1,218

(b) Voting rights

There are no restrictions on voting rights attached to the ordinary shares. On a show of hands every member present in person shall have one vote and upon a poll, every member present or by proxy shall have one vote every share held.

(c) Substantial shareholders

The Company's register of substantial shareholders shows the following:

Shareholder	Number of shares
Suburban Holdings Pty Ltd	4,496,449
Mr George Sim	2,805,000

(d) Shareholders

The twenty largest shareholders hold 51.82% of the total issued ordinary shares in the Company as at 25 February 2009.

2. QUOTATION

Listed securities in XState Resources Limited are quoted on all Australian Stock Exchanges.

3. AUDIT COMMITTEE

As at the date of the directors' report the Company did not have a separate audit committee, however meetings are held between senior management and auditors throughout the year to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

Top Twenty Shareholders at 25 February 2009

	Name	Number of Shares	% of Issued Shares
1.	Suburban Holdings Pty Ltd	4,496,449	8.16
2.	Mr George Sim	2,805,000	5.09
3.	Mr Craig Burton	2,400,000	4.36
4.	Mr Ian Burton	2,400,000	4.36
5.	Canemoon Investments Pty Ltd	1,902,500	3.45
6.	Armelek Pty Ltd	1,892,500	3.44
7.	Cadogan Grove Pty Ltd	1,625,000	2.95
8.	DASMAC (WA) Pty Ltd	1,535,000	2.79
9.	Far East Capital Limited	1,290,000	2.34
10.	Mr Joseph Charles Camuglia	1,250,000	2.27
11.	Mr Anthony Stephen Crimmins	1,145,200	2.08
12.	Bond Street Custodians Limited	1,000,000	1.82
13.	Mrs Linda Kerr & Mr Mark Kerr	750,000	1.36
14.	Mr Peter Hough	650,000	1.18
15.	Mr David John Anderson	620,000	1.13
16.	Rainbow Colour Printing Pty Ltd	613,000	1.11
17.	Mr Errol Bome and Mrs Melanie Bome	574,167	1.04
18.	Marlion Superannuation Pty Ltd	550,000	1.00
19.	UBS Wealth Management Australia Nominees Pty Ltd	521,700	0.95
20.	Geogorach Pty Ltd	520,000	0.94
		28,540,516	51.82