XState Resources Limited ABN 96 009 217 154

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26 May 2010

Dear Shareholder

Re: ENTITLEMENTS ISSUE / PRIORITY OFFER

On 4 May 2010 XState Resources Limited ("XState" or "Company") announced the proposed acquisition of Bombora Energy Limited ("Acquisition"). A meeting of shareholders is to be held on 10 June 2010 to approve amongst other things, the Acquisition, approve a 1:3 consolidation of capital ("Consolidation") and approve a post Consolidation issue of 5,000,000 shares at 20 cents each (plus 2,500,000 additional Options for no further consideration) to raise $1,000,000 million. The options will be exercisable at 24 cents each on or before 30 June 2013.

The Company also advised that it would undertake a non renounceable pro rata entitlements issue of options ("Entitlements Issue") on the basis of 1 option for every 2 shares held, such options issued for 1 cent each and exercisable at 24 cents each on or before 30 June 2013. The Entitlement Issue will be offered to existing XState shareholders on the Entitlements Issue Record Date (being 4 June 2010). The options will be listed on the ASX. The Entitlements Issue will result in the issue of 9,179,932 options, and will raise $91,800 in working capital. The Entitlements Issue is finally underwritten by Argonaut Capital Limited.

As part of the Offer Shareholders who will hold less than 10,000 shares (being a marketable parcel of shares) on a post Consolidation basis, are to be offered shares to increase their holding to a marketable parcel of 10,000 shares. A priority of up to 1,000,000 shares (and 500,000 additional options) at 20 cents each will be offered to shareholders rounding up to 10,000 shares. The Priority Offer comprises part of the Offer ("Priority Offer") referred to above.

The Priority Offer is limited to 1,000,000 shares (and 500,000 additional options). The record date to determine an entitlement to the Priority Offer is 5.00 PM (WST) on 4 June 2010.

The Company has lodged a Prospectus in relation to the Entitlements Issue with the ASX ("Prospectus") The Prospectus will be dispatched to eligible shareholders of the Company for the purposes of the Entitlements Issue on 8 June 2010. The Prospectus outlines the terms of the Entitlements Issue in detail and is available for viewing on the announcements page of the ASX website (www.asx.com.au) and the Company's website (www.xstate.com.au).

The Offer (including Priority Offer) and Entitlement Issue will proceed in accordance with the following timetable:

Announcement of Entitlement Issue and Offer, lodgement of prospectus with ASIC and ASX, and lodgement of Appendix 3B with ASX	26 May 2010
Dispatch of Entitlements Issue and Priority Offer letter to shareholders	28 May 2010
Ex date (date from which Shares commence trading without the entitlement to participate in the Entitlements Issue and Priority Offer)	31 May 2010
Record Date for determining entitlements to participate in the Entitlement Issue and Priority Offer.	4 June 2010
Dispatch of Offer Document and Entitlement and Acceptance Forms	8 June 2010
Opening Date of the Entitlements Issue and Offer	10 June 2010
Closing Date of the Entitlements Issue and Offer	23 June 2010
Allotment of new Shares and Options, dispatch of holding statements **	24 June 2010
Trading of new Shares expected to commence on ASX **	12 July 2010

* Subject to the ASX Listing Rules, the directors reserve the right to extend the closing date for the Rights Issue at their discretion. Should this occur, the extension will have a consequential effect on the anticipated date of issue of the new Shares.

** These dates are indicative only.

In calculating entitlements under Entitlements Issue, fractional entitlements will be rounded up to the nearest whole number. The offer under the Entitlements Issue is made to Shareholder with registered addresses in Australia and New Zealand. Overseas Shareholders should contact the Company secretary with any queries.
Full details of the Entitlements Issue will be contained in the Prospectus that will be mailed to all Shareholders who are registered on the Entitlements Issue Record Date. Shareholders eligible to participate should read the Prospectus carefully.

Should you have any queries in relation to the above, please do not hesitate to contact the Company on (+61) 9423 3200.

Yours faithfully

XSTATE RESOURCES LIMITED

D McArthur

DAVID McARTHUR
Director