XState Resources Limited ABN 96 009 217 154

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30 September 2010

Dear Shareholder

RE: ENTITLEMENTS ISSUE

On 29 September 2010 Xstate Resources Limited ("Xstate" or "Company") announced that it would undertake a non-renounceable pro-rata entitlements issue ("Entitlements Issue") on the basis of 4 shares for every 5 shares held, with 1 listed 30 June 2013 option to be issued for no consideration for every 2 shares subscribed for. The issue price is 10 cents per share.

The entitlements issue will be offered to existing Xstate shareholders on the Entitlements Issue Record Date (11 October 2010). The Entitlements Issue will result in the issue of up to 30,016,261 shares and up to 15,008,130 options and will raise up to $3,001,626 in working capital. The Entitlements Issue is finally underwritten by Argonaut Capital Limited. Cygnet Capital Pty Ltd is the manager of the Entitlements Issue.

The Company has lodged a Prospectus ("Prospectus") in relation to the Entitlements Issue with the ASX. The Prospectus will be despatched to eligible shareholders of the Company for the purposes of the Entitlements Issue on 13 October 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 and the Company's website (www.xstate.com.au).

The Entitlements Issue will proceed in accordance with the following timetable:

Announcement of Entitlement Issue, lodgement of Prospectus with ASIC	29 September 2010
Lodgement of Prospectus and Appendix 3B with ASX	30 September 2010
Notice sent to Shareholders	1 October 2010
Ex date (date from which Shares commence trading without the entitlement to participate in the Entitlements Issue	5 October 2010
Record Date for determining Entitlements to participate in the Entitlement Issue	11 October 2010
Despatch of Prospectus and Entitlement and Acceptance Forms	13 October 2010
Closing Date of the Entitlements Issue *	27 October 2010
Allotment of new Shares and Options, despatch of holding statements **	5 November 2010
Trading of new Shares and Options expected to commence on ASX **	8 November 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 Shareholders 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 8) 9423 3200.

Yours faithfully
XSTATE RESOURCES LIMITED

DAVID McARTHUR
Company Secretary