ABN 96 009 217 154

29 July 2011

ASX Limited **Electronic lodgement**

JUNE 2011

Quarterly Activity Report

HIGHLIGHTS

- **Drilling Rig mobilisation commenced**
- **Drilling of the 300+ million barrel potential Sidi Dhaher Prospect expected to commence in early August**

EXPLORATION ACTIVITY

CHORBANE PERMIT – SIDI DHAHER WELL

XState advised during the quarter that the mobilisation of the Challenger rig equipment and camp to the Sidi Dhaher well site commenced on Monday, 20 June 2011. Road clearance, traffic control and road safety measures were provided by the Tunisian authorities.

The rig is currently being inspected and equipment testing is almost complete. Drilling can commence once the rig has been inspected to the satisfaction of the Operator.

Figure 1: Sidi Dhaher Rig installation

Figure 2: Sidi Dhaher Final Rig Position

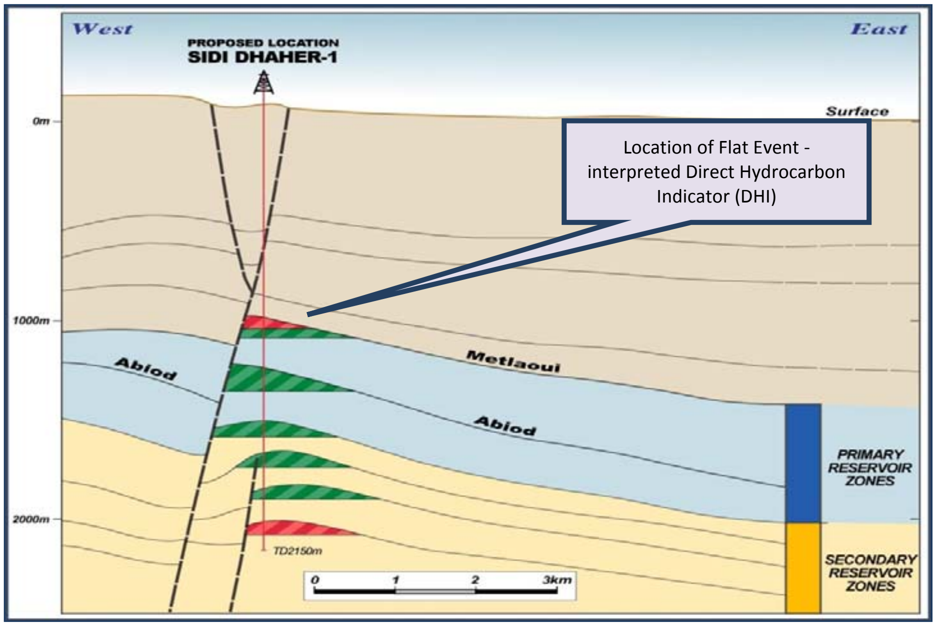

Figure 3: Schematic Sidi Dhaher Cross Section showing 6 potential reservoir zones

The key attributes of the Sidi Dhaher prospect (illustrated above) are:

- Potential for over 300 million barrels of recoverable prospective oil resource in just two primary reservoir zones, with a chance of geologic success independently estimated at 30%.
- The well is anticipated to intersect 4 additional prospective, secondary reservoir zones which provide upside potential.
- All of the primary and secondary reservoir zones produce oil and gas from fields within 50 kilometres of Sidi Dhaher.
- The prospectivity of Sidi Dhaher is supported by the presence of coincident hydrocarbon indicator anomalies, namely:
  - Seismic Flat Spots, on all 2D seismic lines crossing the crest of the prospect at the shallowest reservoir level. These flat spots are interpreted to be potential Direct Hydrocarbon Indicators ("DHI") and are often the seismic expression of the interface between hydrocarbons and underlying water zones in good reservoir rocks; and
  - Surface Petroleum Geochemical "Microseepage" Anomalies across the prospect area. Such anomalies are often present above oil and gas accumulations.
- Resource estimates are based on mapping by Isis Petroleum Consultants, the independent expert who completed the geological report for the XState Prospectus dated 26 May 2010.
- The estimated cost to drill the well is approximately $6 million and the well is planned to take around 30 days to drill to a planned total depth of 2,150 metres.
- If the well proves successful it can be flow tested with a view to early development and production from the field.

XState will earn a 10% working interest in Sidi Dhaher by funding 20% of the Sidi Dhaher 1 well costs up to US$5m and 10% of the costs thereafter.

CHORBANE PERMIT EXTENSION

During the quarter the Tunisian Authorities approved the extension of the current exploration period for the Chorbane Permit by one year to 12 July 2012. The Chorbane Permit contains the Sidi Dhaher prospect and other exploration prospects and leads.

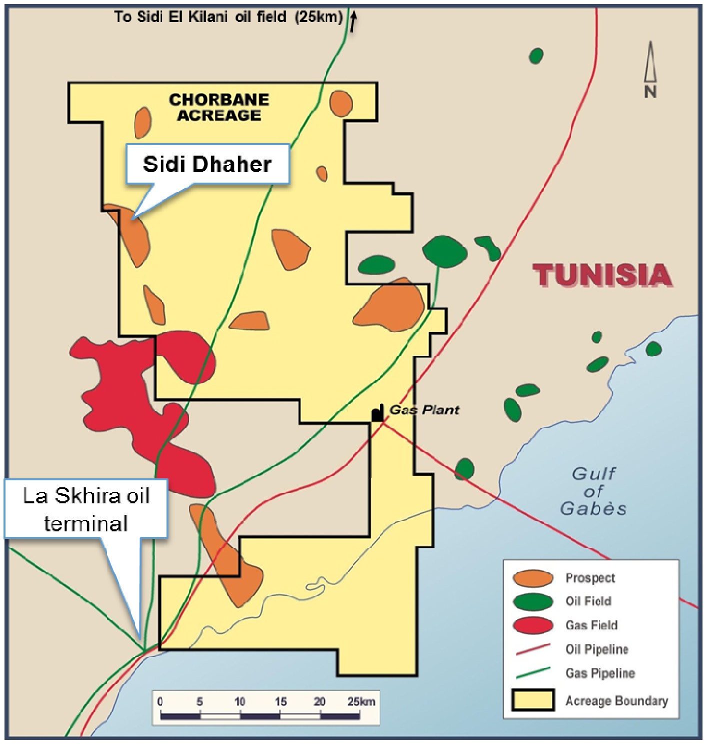

Figure 4: Chorbane Permit Map

KERKOUANE/PANTELLERIA PERMITS

Geological, geophysical and commercial activities continued on the offshore Permits during the quarter. While the focus is on the Dougga gas and condensate discovery, evaluation and assessment of the Kerkouane gas discovery and the results of the Lambouka well drilled in 2010 have confirmed significant potential for commercial development in the Permit Areas, as well as attractive undrilled prospects and leads for future exploration.

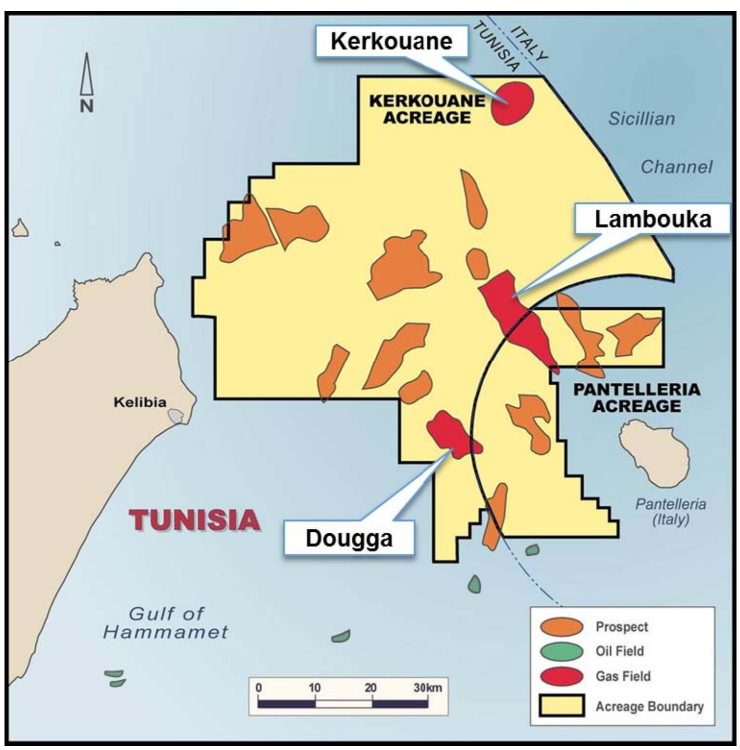

Figure 5: Kerkouane Pantelleria Permit Map

CORPORATE

During the quarter Mr. John Begg tendered his resignation. The Board would like to thank Mr Begg for his contribution to the Company as a Board member.

The Company held its Annual General Meeting of shareholders on 19 May 2011. All resolutions passed successfully and without debate.

The Company also continues to seek and review new exploration Projects.

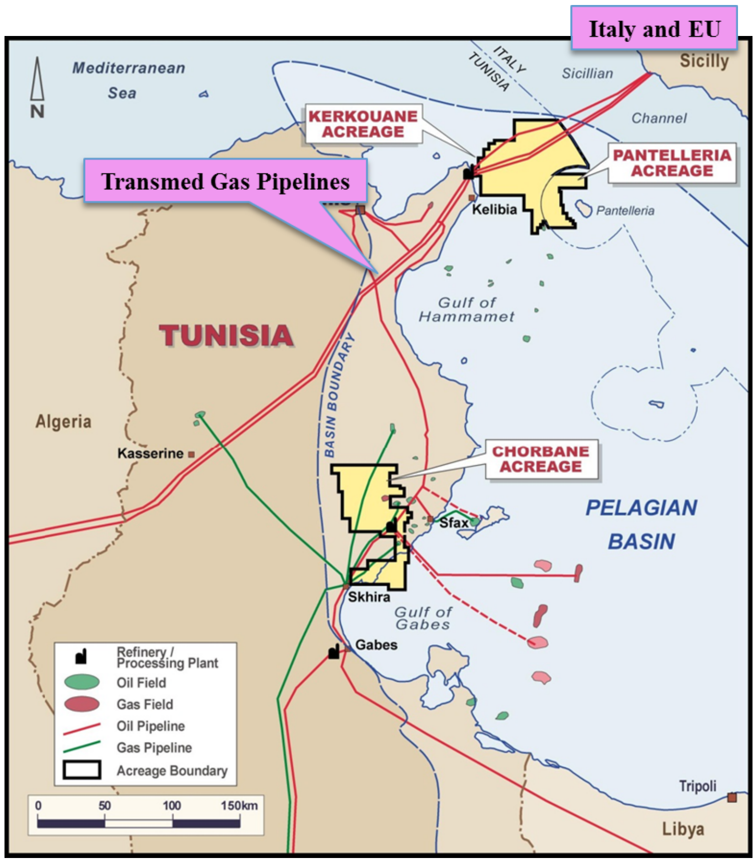

Figure 6: Xstate Permits and Infrastructure Map

For and on behalf of the Board of XState Resources Limited

Gary Jeffery
Managing Director

Competent Person

The technical information provided has been compiled by Mr Gary Jeffery, Managing Director of XState Resources Limited. He is a qualified geophysicist with over 38 years technical, commercial and management experience in exploration for, appraisal and development, and transportation of oil and gas and mineral and energy resources. Mr Jeffery has reviewed the results, procedures and data contained in this release. Mr Jeffery consents to the inclusion of the above information in the form and context in which it appears.

Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/01, 01/06/10, 17/12/10

Name of entity

XSTATE RESOURCES LIMITED

ABN	Quarter ended ("current quarter")
96 009 217 154	30 June 2011

Consolidated statement of cash flows

Cash flows related to operating activities			Current quarter $A'000	Year to date (6 months) $A'000
1.1	Receipts from product sales and related debtors		3	6
1.2	Payments for	(a) exploration and evaluation	(551)	(551)
		(b) development	-	-
		(c) production	-	-
		(d) administration	(314)	(733)
1.3	Dividends received		-	-
1.4	Interest and other items of a similar nature received		17	27
1.5	Interest and other costs of finance paid		-	-
1.6	Income taxes paid		-	-
1.7	Other (provide details if material)		-	-
	Net Operating Cash Flows		(845)	(1,251)
	Cash flows related to investing activities			
1.8	Payment for purchases of:	(a) prospects	-	-
		(b) equity investments	-	-
		(c) other fixed assets	-	(3)
1.9	Proceeds from sale of:	(a) prospects	-	-
		(b) equity investments	-	-
		(c) other fixed assets	-	2
1.10	Loans to other entities		-	-
1.11	Loans repaid by other entities		-	-
1.12	Other – acquisition of subsidiary		-	-
	Net investing cash flows		-	(1)
1.13	Total operating and investing cash flows (carried forward)		(845)	(1,252)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(845)	(1,252)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	1,250
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – capital raising costs	-	(72)
	Net financing cash flows	-	1,178
	Net increase (decrease) in cash held	(845)	(74)
1.20	Cash at beginning of quarter/year to date	2,181	1,417
1.21	Exchange rate adjustments to item 1.20	(14)	(21)
1.22	Cash at end of quarter	1,322	1,322

Payments to directors of the entity and associates of the directors Payments to related entities of the entity and associates of the related entities

		Current quarter $A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	129
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

1.23 – Includes salaries and fees paid to directors, as well as superannuation paid on behalf of directors.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available $A'000	Amount used $A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		$A'000
4.1	Exploration and evaluation	605
4.2	Development	-
4.3	Production	-
4.4	Administration	259
	Total	864

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter $A'000	Previous quarter $A'000
5.1	Cash on hand and at bank	1,322	2,181
5.2	Deposits at call	-	-
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	1,322	2,181

Changes in interests in mining tenements

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed				
6.2	Interests in mining tenements acquired or increased				

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference +securities *(description)*				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	+Ordinary securities **	77,536,587	77,536,587	N/A	N/A
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	+Convertible debt securities *(description)*				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Options *(description and conversion factor)*	48,438,061 400,001	48,438,061 -	*Exercise price* 24 cents Various	*Expiry date* 30 June 2013 30 June 2012
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	Debentures *(totals only)*				
7.12	Unsecured notes *(totals only)*				

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).

2 This statement does give a true and fair view of the matters disclosed.

Sign here: Date: 29 July 2011
Company Secretary

Print name: David McArthur

Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

== == == == ==