ABN 96 009 217 154

31st July 2012

ASX Limited **Electronic lodgement**

June 2012

Quarterly Activity Report

KEY ACTIVITY

- **Xstate's revised net oil and gas resource estimate**
- **Unsuccessful result from Sidi Dhaher well tests**
- **Search for new projects and enhanced value**

Although results from the Sidi Dhaher well flow tests were unsuccessful, the company's remaining assets have significant prospectivity. The Board and management of Xstate are focused on using remaining cash reserves to realize maximum value from the significant Contingent (Discovered) and Prospective Resources within the company's existing exploration assets and to seek new projects to recapitalise the company.

REVISED OIL AND GAS RESOURCES SUMMARY

Xstate is assessed to have resources of over 268 million barrels of oil equivalent (net to its interest) in its exploration assets.

The table below summarises the Company's current estimates of its **net** oil and gas resources based on a review during the quarter of resource assessments by the Operator of the permits, independent assessments and audits, and Xstate internal estimates:

Xstate Net Recoverable Resources Summary^ (mmboe)		
Kerkouane Permit Contingent (Discovered) Recoverable Resources	**34**	
Kerkouane Permit Prospective Resources (Recoverable)	**100+**	
Chorbane Permit Prospective Resources (Recoverable)	**18+**	
Total Net Contingent and Prospective (Recoverable) Resources	**152+**	**mmboe**
Option@ to increase Kerkouane Permit. Contingent and Prospective Resources	**116+**	
Total Net Contingent Prospective Resource if XST exercises Option#	**268+**	**mmboe**

Notes:

^ Mean resource estimates based.

@ Additional 10% equity by paying 15% of next Kerkouane Permit well; option excludes ~150 Km^2 Lambouka Area.

Arithmetic Sum of probabilistic values above.

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The company emphasises that these resource estimates are net to Xstate's current and optional equity interests as listed in the table.

The Kerkouane Contingent Resources include resources attributed to the three existing discoveries in the permit - Dougga, Kerkouane and Lambouka. It is noteworthy that no dry holes have been drilled on this 3,725 km^2 permit.

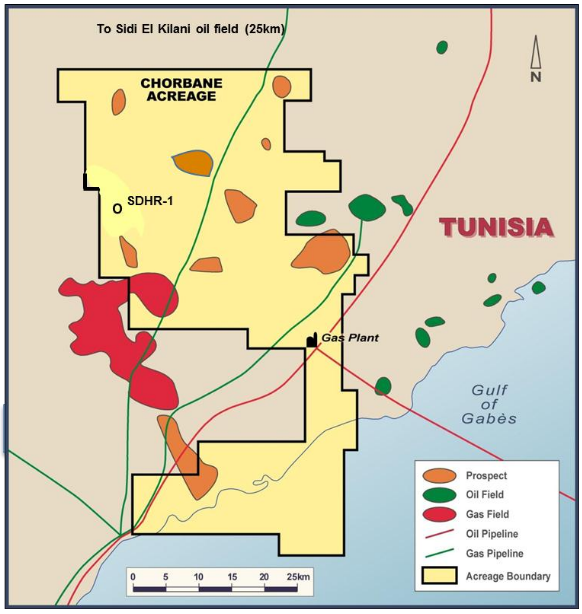
Prospective Resources in Chorbane include exploration prospects currently mapped and the mapped extension of the Chaal gas discovery into the Chorbane Permit.

SIDI DHAHER WELL TEST RESULT

The onshore Sidi Dhaher 1 exploration well was drilled in September and October 2011 and after logging and recovering oil samples, the well was cased to make it safe for temporary plugging and future re-entry for flow testing. Flow testing was carried out in June 2012. Despite the indications of oil noted above, the well flowed only water due to low oil saturation, and the well has been plugged and abandoned.

ONSHORE CHORBANE PERMIT

The onshore Chorbane Permit Area is less than 50 kilometres from the oil industry support centre at Sfax, and is conveniently located relative to a major oil export facility and connecting oil pipelines with available ullage, and also gas transmission pipelines which provide connections to European gas markets. This infrastructure could facilitate early development of any discovery in the permit.



Chorbane Prospectivity and nearby Oil Infrastructure

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Enhanced Chorbane Permit Prospectivity

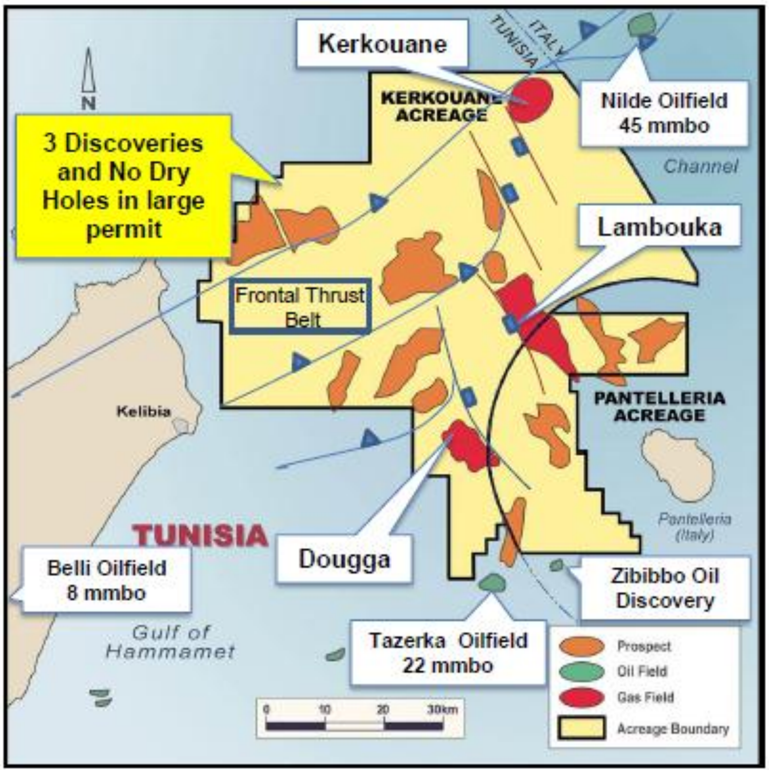
Despite the failure to flow on production test, the recovery of oil at Sidi Dhaher on wireline tests has enhanced the prospectivity of almost the entire permit area. It is also noteworthy that part of the Chaal gas discovery is mapped to extend onto the Chorbane permit.

A number of attractive prospects for drilling in the future are currently being reviewed.

OFFSHORE KERKOUANE PERMIT – upgraded prospectivity (XST - 10% with Option to Increase to 20% over all but 150 km^2 around the Lambouka Discovery)

The Kerkouane and Pantelleria Permits offshore Tunisia and Italy cover 3,725 km^2 and contain three (3) discovery wells (Dougga, Kerkouane and Lambouka) and no dry holes have been drilled on this permit.

Assessment of potential drilling targets for 2013 continues.



Prospectivity of Kerkouane and Pantelleria Permits

In addition to the Prospective Resources listed in the table of Resources on page 1 of this report, a review of seismic amplitude anomalies in the Kerkouane and Pantelleria Permits has revealed significant Prospective Resources of gas. A number of leads with direct hydrocarbon indicators have been mapped and two leads have been interpreted to each contain up to 1Tcf of recoverable gas.

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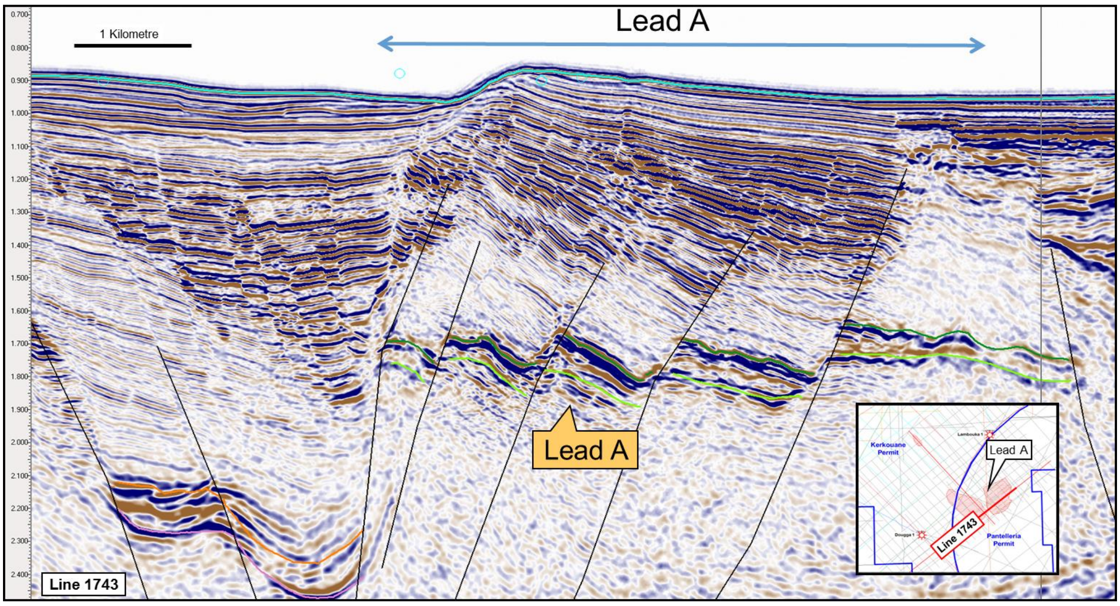

Interpreted Gas Anomaly on 3D Seismic

Anticipated September Quarter Activities

Offshore permit activities in the next quarter will continue to be focused on the method by which the discovered oil and gas potential and the enhanced prospectivity can be fully appraised in the most efficient manner.

Xstate will pursue a strategy to realize value from the gas discoveries in the offshore permits.

Approximately 20% of the Chorbane Permit will be relinquished as a condition of renewal of the Permit until July 2015.The prospectivity of the remaining onshore Chorbane permit will be reviewed and a plan for future exploration activity developed in the September quarter.

CORPORATE

The company continues to seek and review new exploration projects and /or merger opportunities that enhance shareholder value. In recognition of the current financial position of the Company, the Board has instituted changes that will see corporate and administration costs reduced by approximately 40% until such time as the Company is successfully recapitalised.

In June the Chairman, David Whitby, resigned and as a cost mitigation measure he will not be replaced.

On 13 July 2012 escrow restrictions were lifted on 4,483,268 fully paid ordinary shares and 9,840,237 options expiring on 30 June 2013.

On 24 May 2012 shareholders approved the Company placing up to 25 million shares by 24 August 2012.

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 39 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 2012

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		-	15
1.2	Payments for	(a) exploration and evaluation	(211)	(341)
		(b) development	-	-
		(c) production	-	-
		(d) administration	(300)	(550)
1.3	Dividends received		-	-
1.4	Interest and other items of a similar nature received		9	21
1.5	Interest and other costs of finance paid		-	-
1.6	Income taxes received		-	8
1.7	Other (provide details if material)		-	-
	Net Operating Cash Flows		(502)	(847)
	Cash flows related to investing activities			
1.8	Payment for purchases of:	(a) prospects	-	-
		(b) equity investments	-	-
		(c) other fixed assets	(2)	(5)
1.9	Proceeds from sale of:	(a) prospects	-	-
		(b) equity investments	-	-
		(c) other fixed assets	-	-
1.10	Loans to other entities		-	-
1.11	Loans repaid by other entities		-	-
1.12	Other – acquisition of subsidiary		-	-
	Net investing cash flows		(2)	(5)
1.13	Total operating and investing cash flows (carried forward)		(504)	(852)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(504)	(852)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
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	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(504)	(852)
1.20	Cash at beginning of quarter/year to date	1,052	1,400
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	548	548

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	120
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	227
4.2	Development	-
4.3	Production	-
4.4	Administration	125
	Total	352

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	548	1,052
5.2	Deposits at call	-	-
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	548	1,052

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 **	100,881,350	100,881,350	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 66,667	48,438,061 -	*Exercise price* 24 cents 24 cents	*Expiry date* 30 June 2013 21 January 2013
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter	333,334	-	Various	30 April 2012
7.11	Debentures *(totals only)*				
7.12	Unsecured notes *(totals only)*				

+ See chapter 19 for defined terms.

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: Company Secretary Date: 31 July 2012

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.

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