Xstate Resources

ABN 96 009 217 154

6 August 2012

ASX Limited

Electronic lodgement

ASX Code: XST

INTERIM FINANCIAL REPORT

We attach the interim financial report for Xstate Resources Limited for the half year ended 30 June 2012.

For and on behalf of the Board

XSTATE RESOURCES LIMITED

ABN 96 009 217 154

INTERIM FINANCIAL REPORT

30 JUNE 2012

CONTENTS

COMPANY DIRECTORY

DIRECTORS AND COMPANY SECRETARY:

Ross Kestel
Non-executive Director

James Brown
Non-executive Director

Gary Jeffery
Managing Director

David McArthur
Company Secretary

REGISTERED OFFICE:

Level 2	PO Box 985
55 Carrington Street	NEDLANDS
NEDLANDS	WA 6909
WA 6009	
Telephone:	+61 8 9423 3200
Facsimile:	+61 8 9389 8327

PRINCIPAL OFFICE:

208 Bagot Road	PO Box 805
SUBIACO	SUBIACO
WA 6008	WA 6904
Telephone:	+61 8 9381 4215
Facsimile:	+61 8 9381 9386

SHARE REGISTRY:

Advanced Share Registry Services
110 Stirling Highway
NEDLANDS
WA 6009

Telephone: +61 8 9389 8033
Facsimile: +61 8 9389 7871

BANKERS:

ANZ Banking Group Limited
Business Relationship Banking
Level 6, 77 St Georges Terrace
PERTH WA 6000

AUDITORS:

KPMG
Level 8
235 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

WEBSITE AND EMAIL:

www.Xstate.com.au
info@Xstate.com.au

SECURITIES EXCHANGE:

Xstate Resources Limited shares and options are listed on the Australian Securities Exchange (ASX)

Ordinary Shares – XST
Options - XSTO

DIRECTORS' REPORT

The Directors present their report together with the financial report of Xstate Resources Limited for the six months ended 30 June 2012 and the review report thereon.

1. DIRECTORS

The Directors of the Company at any time during or since the end of the interim period are:

Name	Period of Directorship
Executive	
Gary Jeffery	Director since 8 July 2010
Non-executive	
Ross Kestel	Director since 6 September 2006
James Brown	Director since 5 April 2011
David Whitby	Director from 11 February 2011 to 28 June 2012

2. PRINCIPAL ACTIVITIES

The principal activity of the Group during the interim period was oil and natural gas exploration.

3. DIVIDENDS

No dividend was paid during the interim period and the Directors do not recommend payment of a dividend.

4. REVIEW OF OPERATIONS

Xstate Resources Limited is a Perth-based oil and gas explorer with projects in the Mediterranean and Tunisia region.

Other than the oil and gas exploration activities detailed in the quarterly exploration reports released to the market, there have been no other significant operations by the Group during the six months to 30 June 2012. A decision was made to impair the carrying amount of the Sidi Dhaher asset in the accounts of the Group (refer Note 6 to the condensed consolidated financial statements) based on the Directors' view that the well bore was unlikely to have significant value for evaluating or producing an accumulation of oil and gas.

5. DIRECTOR'S REMUNERATION

(a) Executive Directors

Having regard to the cash balance at 30 June 2012, with effect from 1 July 2012 the payment to Gary Jeffery was reduced from $250,000 per annum to $120,000 per annum for 75% of his time. This reduction represents a deferral of cash payments, and the balance owing will only be paid as and when the company is in a financial position to do so.

(b) Non-executive Directors

Having regard to the cash balance at 30 June 2012, the payment to non-executive directors was reduced to $35,000 per annum, per director. This reduction represents a deferral of cash payments, and the balance owing will only be paid as and when the company is in a financial position to do so.

Payments for corporate, company secretarial and accounting costs were also reduced by 40% on the same basis.

6. CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Xstate Resources support and have adhered to the principles of corporate governance. The Group's corporate governance statement is contained within the 31 December 2011 Annual Report and can be viewed on the Company's website.

7. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on the next page and forms part of the Directors' report, for the six months ended 30 June 2012.

Dated at Perth, Western Australia this 6th day of August 2012.

Signed in accordance with a resolution of the Directors.

GARY JEFFERY
Director

KPMG

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 review for the half-year ended 30 June 2012 there have been:

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

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

KPMG

KPMG

Grant Robinson

Grant Robinson
Partner

Perth

6 August 2012

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	30 June 2012 $	31 December 2011 $
Assets			
Cash and cash equivalents		547,981	1,400,137
Trade and other receivables		24,797	37,663
Prepayments	8	29,873	27,624
Total current assets		602,651	1,465,424
Exploration and evaluation expenditure	6	7,549,554	8,616,144
Property, plant and equipment		25,828	25,125
Trade and other receivables		18,333	18,333
Total non-current assets		7,593,715	8,659,602
Total assets		8,196,366	10,125,026
Liabilities			
Trade and other payables	9	211,404	84,672
Total current liabilities		211,404	84,672
Total liabilities		211,404	84,672
Net assets		7,984,962	10,040,354
Equity			
Share capital		41,092,627	41,092,627
Reserves		279,149	415,549
Retained earnings		(33,386,814)	(31,467,822)
Total equity attributable to equity holders of the company		7,984,962	10,040,354

The condensed notes on pages 10 to 16 are an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Note	30 June 2012 $	30 June 2011 $
Continuing operations			
Other income		14,000	6,250
Administrative expenses	11	(421,573)	(552,488)
Other expenses		(116,110)	(199,254)
Impairment of exploration expenditure	6	(1,551,844)	(4,325,257)
Results from operating activities		(2,075,527)	(5,070,749)
Finance income		20,363	27,229
Finance expenses		(228)	(21,394)
Net finance (expense) / income		20,135	5,835
Loss before income tax		(2,055,392)	(5,064,914)
Income tax benefit		-	113
Loss from continuing operations		(2,055,392)	(5,064,801)
Loss for the period		(2,055,392)	(5,064,801)
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive loss for the period		(2,055,392)	(5,064,801)
Loss attributable to owners of the Company		(2,055,392)	(5,064,801)
Total comprehensive loss attributable to owners of the Company		(2,055,392)	(5,064,801)
Loss per share			
Basic and diluted (cents per share)		(2.04)	(6.81)

The condensed notes on pages 10 to 16 are an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Attributable to equity holders of the Company				
	Share capital $	**Translation reserve $**	**Equity-based benefits reserve $**	**Accumulated losses $**	**Total $**
Balance at 1 January 2012	41,092,627	-	415,549	(31,467,822)	10,040,354
Total comprehensive expense for the year					
Loss for the year	-	-	-	(2,055,392)	(2,055,392)
Other comprehensive income					
Total comprehensive income / (expense) for the period	-	-	-	(2,055,392)	(2,055,392)
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Share-based payment transactions	-	-	(136,400)	136,400	-
Total contributions by and distributions to owners	-	-	(136,400)	136,400	-
Total changes in ownership interests in subsidiaries	-	-	-	-	-
Total transactions with owners	-	-	(136,400)	136,400	-
Balance at 30 June 2012	41,092,627	-	279,149	(33,386,814)	7,984,962

The condensed notes on pages 10 to 16 are an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Attributable to equity holders of the Company				
	Share capital $	**Translation reserve $**	**Equity-based benefits reserve $**	**Accumulated losses $**	**Total $**
Balance at 1 January 2011	38,517,929	(486,352)	415,549	(29,707,174)	8,739,952
Total comprehensive expense for the period					
Loss for the year	-	-	-	(5,064,801)	(5,064,801)
Total other comprehensive expense	-	-	-	-	-
Total comprehensive expense for the year	-	-	-	(5,064,801)	(5,064,801)
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Capital raising costs	1,250,000	-	-	-	1,250,000
Share-based payment transactions	(72,328)	-	-	-	(72,328)
Total contributions by and distributions to owners	1,177,672	-	-	-	1,177,672
Total changes in ownership interests in subsidiaries	-	-	-	-	-
Total transactions with owners	1,177,672	-	-	-	1,177,672
Balance at 30 June 2011	39,695,601	(486,352)	415,549	(34,771,975)	4,852,823

The condensed notes on pages 10 to 16 are an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	30 June 2012 $	30 June 2011 $
Cash flow from operating activities		
Receipts from customers	13,929	6,480
Cash paid to suppliers and employees	(549,328)	(732,787)
Income taxes received	8,173	113
Net cash used in operating activities	(527,226)	(726,194)
Cash flows from investing activities		
Interest received	21,077	27,591
Payments for property, plant and equipment	(4,525)	(3,297)
Proceeds from sale of property, plant and equipment	-	2,012
Payments for exploration, evaluation and development	(341,254)	(550,966)
Net cash used in investing activities	(324,702)	(524,660)
Cash flow from financing activities		
Proceeds from issue of shares and options	-	1,250,000
Capital raising costs	-	(72,328)
Net cash from / (used in) financing activities	-	1,177,672
Net decrease in cash and cash equivalents	(851,928)	(73,182)
Cash and cash equivalents at 1 January	1,400,137	1,416,717
Effect of exchange rate fluctuations on cash held	(228)	(21,394)
Cash and cash equivalents at 30 June	547,981	1,322,141

The condensed notes on pages 10 to 16 are an integral part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. REPORTING ENTITY

Xstate Resources Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial report of the Group as at and for the year ended 31 December 2011 are available upon request from the Company's registered office at Level 2, 55 Carrington Street, Nedlands, Western Australia, 6009.

2. BASIS OF PREPARATION

(a) Statement of compliance

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001. It does not include all of the information required for a full annual financial report, and should be read in conjunction with the annual consolidated financial report of the Group as at and for the year ended 31 December 2011.

The condensed consolidated interim financial report was approved by the Board of Directors on 6 August 2012.

(b) Estimates

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2011.

(c) Going concern

The condensed consolidated interim financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group has recorded a net loss for the period of $2,055,392 (30 June 2011: Loss $5,064,801) with net cash outflows for the period of $851,928 (net cash inflows for the year ended 31 December 2011: $9,762), current assets exceeded current liabilities by $391,247 (31 December 2011: $1,380,752), and the Group has net assets of $7,984,962 (31 December 2011: $10,040,354). The cash balance at 30 July 2012 was $432,152.

2. BASIS OF PREPARATION (continued)

(c) Going concern (continued)

The Board is aware that the Group's ability to continue as a going concern, and thereby be able to pay its debts as and when they fall due, is dependent on the Group securing further working capital sourced from one or more of the following alternatives:

- Capital market raising such as:
  - Private placement
  - Entitlements issue
  - Share purchase plan
- Asset sales
- Borrowings from related or third parties

The Group acknowledges that there are risks that may provide uncertainty over the Group's ability to continue operating for at least the next twelve months. However, the Directors believe that the Group will continue as a going concern and base this view on the factors set out below.

The Group's cash flow forecast supports the director's opinion that the Group's working capital position will remain positive for at least the next twelve months from the date of these financial statements. However, this cash flow forecast is dependent on successfully achieving funding through one or more of the above funding alternatives. The timing of raising additional working capital will depend on a variety of factors but will be required within the next twelve months. In addition, at the AGM on 24 May 2012, shareholders approved the issue of up to 25 million ordinary shares within 3 months of the meeting date. Whilst there is uncertainty regarding the outcomes of the funding alternatives set out above, the Group has a history of successfully raising capital to fund its exploration activities. The Directors are confident that one or more of these necessary alternatives will be realised. Despite this, however, there is an inherent uncertainty about the achievement of future funding on which the assessment of going concern is based.

The Directors have reviewed the operating outlook for the Group and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Group will achieve the matters set out above. In the event that the Group is unable to continue as a going concern, it may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different to those stated in this financial report.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in the condensed consolidated interim financial report are the same as those applied by the Group in its financial report as at and for the year ended 31 December 2011.

4. FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2011.

5. OPERATING SEGMENTS

At the reporting date the Group had one reportable segment, being oil and gas.

Information about reportable segments

	Oil and gas	
	30 June 2012 $	**30 June 2011 $**
Reportable segment loss before income tax	(1,551,844)	(4,325,257)
Other material non-cash items:		
Impairment loss on exploration and evaluation	(1,551,844)	(4,325,257)

	30 June 2012 $	**31 December 2011 $**
Reportable segment assets	7,549,554	8,616,144
Other material items:		
Capital expenditure	485,254	1,371,126

Reconciliation of reportable segment loss, assets and liabilities and other material items

	30 June 2012 $	**30 June 2011 $**
Loss		
Total loss for reportable segments	(1,551,844)	(4,325,257)
Unallocated amounts: other corporate expenses	(523,683)	(745,379)
Finance expense (including foreign currency translation)	(228)	(21,394)
Finance income	20,363	27,229
Consolidated loss before income tax	(2,055,392)	(5,064,801)

5. OPERATING SEGMENTS (continued)

Reconciliation of reportable segment loss, assets and liabilities and other material items (continued)

	30 June 2012 $	31 December 2011 $
Assets		
Total assets for reportable segments	7,549,554	8,616,144
Other assets	646,812	1,508,882
	8,196,366	10,125,026
Liabilities		
Total liabilities for reportable segments	-	-
Other liabilities	(211,404)	(84,672)
	(211,404)	(84,672)

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2011.

6. EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

	30 June 2012 $	31 December 2011 $
Costs carried forward in respect of areas of interest – Exploration phase	7,549,554	8,616,144
Opening balance	8,616,144	7,245,018
Additions	485,254	1,371,126
Written off	(1,551,844)	-
	7,549,554	8,616,144

Exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. The ultimate recovery of exploration and evaluation phase expenditure is primarily dependent upon the successful development and commercial exploitation, or alternatively, sale of the areas of interest.

Flow testing on the Sidi Dhaher well was carried out in June 2012. Despite there being indications of oil, the well flowed water. As a result, the well has been plugged and abandoned and the costs associated with the Sidi Dhaher drilling, were impaired.

6. EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE (continued)

In the June 2011 interim financial report, the Directors took the decision to fully impair the carrying value amount of $4,329,868 expended on Lambouka 1. At the time of reporting, and due to drill-hole damage, the Directors considered it unlikely that Lambouka 1 would have significant value for evaluating or producing an accumulation of oil and gas.

As a consequence of the receipt of an independent valuation of the Lambouka interests post the period of impairment supporting that the tenement area still held value, the directors reassessed the viability of the drill hole for further evaluation activities. They concluded that the damaged area of the drill hole could be bypassed and thus the drill hole still held value. Accordingly, in December 2011, the Directors deemed it appropriate to reverse the impairment of the Lambouka 1 drilling costs.

7. CAPITAL AND RESERVES

(a) Share capital

The number of shares on issue at 30 June 2012 was 100,881,351 (30 June 2011: 77,536,588).

(b) Reserves

Equity-based benefits reserve
The equity-based benefits reserve represents the cost of options that have been granted as share-based payments but not exercised. This reserve will be transferred to capital should these options be exercised or transferred to retained earnings should certain vesting conditions not be met.

On 30 April 2012, 333,334 options expired and the benefit was transferred to retained earnings.

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

8. PREPAYMENTS

	30 June 2012 $	31 December 2011 $
Insurance	15,076	6,321
Australian Securities Exchange	-	7,838
Subscriptions and conference registrations	14,797	13,465
Less than one year	29,873	27,624

9. TRADE AND OTHER PAYABLES

	30 June 2012 $	31 December 2011 $
Current		
Trade payables	49,728	21,760
Non-trade payables and accrued expenses	161,676	62,912
Less than one year	211,404	84,672

10. PERSONNEL EXPENSES

	30 June 2012 $	30 June 2011 $
Wages and salaries	19,127	41,570
Directors and executive remuneration	274,103	341,693
Contributions to staff defined contribution plans	1,722	3,741
Decrease in staff liability for annual leave	-	(709)
Fringe benefits tax	-	84
Other associated personnel expenses	-	51,372
	294,952	437,751

In the six months ended 30 June 2011, $42,380 of other associated personnel expenses related to recruitment costs.

11. ADMINISTRATIVE EXPENSES

	Note	30 June 2012 $	30 June 2011 $
Personnel expenses	10	294,952	437,751
Advertising and publicity		34,886	36,320
Communication and information services		23,348	5,161
Motor vehicle expenses		10	-
Office administration		55,123	48,079
Bank charges		723	499
Share registry and statutory fees		12,531	24,678
		421,573	552,488

13. SUBSEQUENT EVENTS

There have been no matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the Company, the results of these operations, or the state of affairs of the Company in future financial years.

DIRECTORS' DECLARATION

In the opinion of the Directors of Xstate Resources Limited (the "Company"):

(1) the financial statements and notes set out on pages 5 to 16 are in accordance with the Corporations Act 2001, including:

  (a) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the six months ended on that date; and

  (ii) complying with Australian Accounting AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

(2) as set out in note 2(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

GARY JEFFERY
Director

Dated at Perth this 6th day of August 2012.

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

Report on the financial report

We have reviewed the accompanying interim financial report of Xstate Resources Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2012, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 13 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2012 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Xstate Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Xstate Resources Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Inherent uncertainty regarding continuation as a going concern

Without modifying our opinion expressed above, attention is drawn to Note 2(c) in the interim financial report. The matters set forth in Note 2(c) indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

KPMG

Grant Robinson
Partner

Perth

6 August 2012