ABN 96 009 217 154

31st January 2013

ASX Limited **Electronic lodgement**

December 2012
Quarterly Activity Report

KEY ACTIVITY

- **Xstate received first tranche of up to US$1.375 million from Tunisian Assets sale**
- **Active and broad search for new projects continues**

Xstate signed an agreement to sell its 10% participating interests in the Chorbane permit, and its 10% participating interest in the Kerkouane and Pantelleria permits in Tunisia and Italy to the Gulfsands Petroleum Group.

An extraordinary general meeting of Xstate shareholders on 27 November 2012 approved the transaction. Subsequently, the first tranche of the sale consideration was received. However, the completion of this transaction is subject to the receipt of Tunisian government regulatory approval. This approval is expected in the coming quarter, after which the second tranche of the sale consideration will become due for payment to Xstate.

The transaction will result in the receipt of US$875,000 cash on closing representing the sale consideration of US$675,000 and reimbursement of joint venture expenditures of US$200,000, and potentially a further payment of a US$500,000 cash bonus upon first production resulting from the drilling of the next exploration well on the Kerkouane Permit. The next exploration well is expected to be selected from a number of advanced exploration prospects that have been developed on 3D seismic data in the Dougga Gas and Condensate discovery area of the Kerkouane Permit.

This sale is consistent with the change in strategy outlined in the company presentation of September 4, 2012 in which Xstate advised it had reduced administrative costs and was seeking to realise value from its Tunisian assets as a part of changing its focus to other oil and gas opportunities.

Xstate has been and continues to actively seek new oil and gas assets to revitalise the company and is pursuing mergers, acquisition and acreage application opportunities over areas where Xstate management and advisors have extensive oil and gas exploration and development experience.

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CORPORATE

In recognition of the current financial position of the Company, the Board instituted changes that have resulted in corporate and administration costs being reduced by approximately 40% from prior levels. It is anticipated that this cost level will be maintained until such time as the Company is successfully recapitalised.

There has been no change in the capital structure of the company during the quarter.

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 40 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.

11Rule 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	31 December 2012

Consolidated statement of cash flows

Cash flows related to operating activities			Current quarter $A'000	Year to date (12 months) $A'000
1.1	Receipts from product sales and related debtors		3	31
1.2	Payments for	(a) exploration and evaluation	(20)	(627)
		(b) development	-	-
		(c) production	-	-
		(d) administration	(140)	(819)
1.3	Dividends received		-	-
1.4	Interest and other items of a similar nature received		-	23
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		(157)	(1,384)
	Cash flows related to investing activities			
1.8	Payment for purchases of:	(a) prospects	-	-
		(b) equity investments	-	-
		(c) other fixed assets	-	(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 – sale of exploration assets		296	296
	Net investing cash flows		296	291
1.13	Total operating and investing cash flows (carried forward)		139	(1,093)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	139	(1,093)
	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	139	(1,093)
1.20	Cash at beginning of quarter/year to date	163	1,400
1.21	Exchange rate adjustments to item 1.20	6	1
1.22	Cash at end of quarter	308	308

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	46
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

1.12 – Following shareholder approval this is the first tranche received for the sale of the Tunisia assets.

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

+ See chapter 19 for defined terms.

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	$100	-

Estimated cash outflows for next quarter

		$A'000
4.1	Exploration and evaluation	-
4.2	Development	-
4.3	Production	-
4.4	Administration	105
	Total	105

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	308	163
5.2	Deposits at call	-	-
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	308	163

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				
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: D McArthur Date: 31 January 2013
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.

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