Xstate RESOURCES

ABN 96 009 217 154

31 March 2014

ASX Limited

Electronic lodgement
ASX Code: XST

DISPATCH OF 2013 ANNUAL REPORT AND NOTICE OF AGM

Attached is copy of the 2013 Annual Report together with the Notice of Annual General Meeting, Proxy Form and Explanatory Memorandum which have been dispatched to shareholders.

A copy of the Annual Report and Notice of Annual General Meeting is also available on our website www.xstate.com.au.

On behalf of the Board of Directors

Level 2, 55 Carrington Street, Nedlands WA 6009
PO Box 985, Nedlands, WA 6909
Tel + 61 8 9423 3200 Fax +61 8 9389 8327
www.xstate.com.au

XSTATE RESOURCES LIMITED

ABN 96 009 217 154

NOTICE OF ANNUAL GENERAL MEETING

PROXY FORM

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# AND

# EXPLANATORY MEMORANDUM

***Date of Meeting***

**Wednesday, 30 April 2014**

***Time of Meeting***

**11.00 am (WST)**

***Place of Meeting***

**Level 2, 55 Carrington Street**
**Nedlands, Western Australia**
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XSTATE RESOURCES LIMITED

ABN 96 009 217 154

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Xstate Resources Limited ("**Company**") will be held at 11.00 am (WST) on Wednesday, 30 April 2014 at Level 2, 55 Carrington Street, Nedlands, Western Australia.

An Explanatory Memorandum containing information in relation to each of the Resolutions to be put to the meeting accompanies this Notice.

AGENDA

To consider and, if thought fit, to pass the following Resolutions.

ORDINARY BUSINESS

<u>2013 Accounts</u>

To receive and consider the annual financial report, the Directors' report and the auditor's report for the financial year ended 31 December 2013 and the Directors' declaration on the accounts.

<u>Non-binding Ordinary Resolution 1: Directors' Remuneration Report</u>

To receive and consider the Directors' Remuneration Report for the year ended 31 December 2013 and, if thought fit, to pass, with or without amendment, the following Resolution as a non-binding Resolution:

"*That, pursuant to and in accordance with section 250R(2) of the Corporations Act, the Directors' Remuneration Report contained within the Directors' report for the financial year ended 31 December 2013 be adopted*."

Note 1: the vote on this Resolution is advisory only and does not bind the Directors of the Company.

Note 2: If 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive annual general meetings, Shareholders will be required to vote at the second of those annual general meetings on a resolution (a "spill resolution") that another meeting be held within 90 days at which all of the Company's Directors (other than the Managing Director and CEO) must stand for re-election.

Voting Prohibition Statement:

A vote on this Resolution 1 must not be cast (in any capacity) by or on behalf of any of the following persons:

(a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or

(b) a Closely Related Party of such a member,

(collectively, a "**Prohibited Voter**").

However, a Prohibited Voter may cast a vote on this Resolution 1 as a proxy if the vote is not cast on behalf of a person described above and either:

(c) the Prohibited Voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the Resolution; or

(d) the Prohibited Voter is the Chair and the appointment of the Chair as proxy:

(i) does not specify the way the proxy is to vote on this Resolution; and

(ii) expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, or if the Company is part of a consolidated entity, for the entity.

Ordinary Resolution 2: Election of Director - Mr David McArthur

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That, for the purposes of clause 13.4 of the Company's Constitution and for all other purposes, Mr David McArthur, who retires having been appointed a director since the last annual general meeting, be re-elected a director of the Company."

Ordinary Resolution 3: Election of Director - Mr Chris Hodge

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That, for the purposes of clause 13.4 of the Company's Constitution and for all other purposes, Mr Chris Hodge, who retires having been appointed a director since the last annual general meeting, be re-elected a director of the Company."

Ordinary Resolution 4: Election of Director - Mr Paul Cartwright

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That, for the purposes of clause 13.4 of the Company's Constitution and for all other purposes, Mr Paul Cartwright, who retires having been appointed a director since the last annual general meeting, be re-elected a director of the Company."

Ordinary Resolution 5: Ratification of Issue of Shares – Placement

To consider and, if thought fit, to pass, with or without amendment, as an **ordinary resolution:**

"That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, the Company ratifies the allotment and issue of 20,000,000 fully paid ordinary shares on the terms set out in the Explanatory Statement accompanying this Notice of Meeting."

Voting Exclusion Statement: The Company will disregard any votes cast on Resolution 5 by any persons who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if cast by a person as proxy for a person who is entitled to vote, in accordance with the directions of the proxy form or is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Special Resolution 6: Approval of 10% Placement Capacity

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

"That, for the purpose of Listing Rule 7.1A and for all other purposes, approval is given for the issue of Equity Securities totalling up to 10% of the issued capital of the Company at the time of issue, calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who may participate in the issue of Equity Securities under this Resolution and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company will not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Important note: The proposed allottees of any Equity Securities under the 10% Placement Capacity are not as yet known or identified. In these circumstances (and in accordance with the note set out in ASX Listing Rule 14.11.1 relating to ASX Listing Rules 7.1 and 7.1A), for a person's vote to be excluded, it must be known that that person will participate in the proposed issue. Where it is not known who will participate in the proposed issue (as is the case in respect of any Equity Securities issued under the 10% Placement Capacity), Shareholders must consider the proposal on the basis that they may or may not get a benefit and that it is possible that their holding will be diluted, and there is no reason to exclude their votes.

By Order of the Board

D M McARTHUR
Company Secretary

Dated: 11 March 2014

ENTITLEMENT TO ATTEND AND VOTE

The Company may specify a time, not more than 48 hours before the Meeting, at which a "snap-shot" of Shareholders will be taken for the purposes of determining Shareholder entitlements to vote at the Annual General Meeting.

The Company's Directors have determined that all Shares of the Company that are quoted on ASX at 5:00pm (Sydney Time) on Monday, 28 April 2014 shall, for the purposes of determining voting entitlements at the Annual General Meeting, be taken to be held by the persons registered as holding the Shares at that time.

PROXIES

Please note that:

(a) a member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy;

(b) a proxy need not be a member of the Company; and

(c) a member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

The enclosed Proxy Form provides further details on appointing proxies and lodging Proxy Forms.

CORPORATE REPRESENTATIVE

A Shareholder that is a corporation may appoint an individual to act as its corporate representative to vote at the Meeting in accordance with section 250D of the Corporations Act. Any corporation wishing to appoint an individual to act as its representative at the Meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative. The authority may be sent to the Company and/or Share Registry in advance of the Meeting or handed in at the Meeting when registering as a corporate representative. A 'Certificate of Appointment of Corporate Representative' is enclosed if required.

ENQUIRIES

Shareholders are invited to contact the Company Secretary, David McArthur on +61 8 9423 3200 if they have any queries in respect of the matters set out in this document.

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

EXPLANATORY MEMORANDUM

This Explanatory Memorandum is intended to provide Shareholders with sufficient information to assess the merits of the Resolutions contained in the accompanying Notice of Annual General Meeting ("**Notice**") of the Company.

The Directors of the Company ("**Directors**") recommend Shareholders read this Explanatory Memorandum in full before making any decision in relation to the Resolutions.

The following information should be noted in respect of the various matters contained in the accompanying Notice.

FINANCIAL STATEMENTS AND REPORTS

The business of the Annual General Meeting will include receipt and consideration of the annual financial report, the Directors' report and the auditor's report for the financial year ended 31 December 2013 and the Directors' declaration on the accounts.

A copy of the Company's 2013 Annual Report is available on the Company's ASX platform (ASX: XST) and on the website www.xstate.com.au. Alternatively, a hard copy will be made available upon request.

There is no requirement for Shareholders to approve the Annual Financial Statements.

The Company's auditor, KPMG, will be present at the Annual General Meeting and Shareholders will have the opportunity to ask the auditor questions in relation to the conduct of the audit, the auditor's report, the Company's accounting policies, and the independence of the auditor.

In addition to taking questions at the Meeting, written questions to the Chair about the management of the Company, or to the Company's auditor about:

(a) the preparation and content of the auditor's report;

(b) the conduct of the audit;

(c) accounting policies adopted by the Company in relation to the preparation of the Annual Financial Statements; and

(d) the independence of the auditor in relation to the conduct of the audit,

may be submitted no later than 5 business days before the meeting date to the Company Secretary.

NON-BINDING ORDINARY RESOLUTION 1: Directors' Remuneration Report

General

The Corporations Act requires that at a listed company's annual general meeting, a resolution that the Remuneration Report be adopted must be put to the Shareholders. However, such a resolution is advisory only and does not bind the Directors or the Company.

The Remuneration Report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The Remuneration Report is part of the Directors' report contained in the annual financial report of the Company for the financial year ending 31 December 2013.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the Annual General Meeting.

Under the Corporations Act, if 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive annual general meetings, Shareholders will be required to vote at the second of those annual general meetings on a resolution (a "spill resolution") that another meeting be held within 90 days at which all of the Company's Directors (other than the Managing Director and CEO) must stand for re-election.

The Company's Remuneration Report did not receive a "no" vote of 25% or more at the Company's previous annual general meeting.

Proxy restrictions

Shareholders appointing a proxy for Resolution 1 should note the following:

(a) ***If you appoint a member of the Key Management Personnel (other than the Chair) as your proxy***

If you elect to appoint a member of the Key Management Personnel (other than the Chair) whose remuneration details are included in the Remuneration Report, or a Closely Related Party of that member, ***you <u>must</u> direct the proxy how they are to vote***. Undirected proxies granted to these persons will not be included in any vote on Resolution 1.

(b) ***If you appoint the Chair as your proxy***

If you elect to appoint the Chair as your proxy, you ***<u>do not</u>*** need to direct the Chair how you wish them to exercise your vote on Resolution 1, however if you do not direct the Chair how to vote, ***you <u>must</u> tick the acknowledgement on the Proxy Form to acknowledge that the Chair may exercise their discretion in exercising your proxy even though Resolution 1 is connected directly or indirectly with the remuneration of Key Management Personnel***.

(c) ***If you appoint any other person as your proxy***

You ***<u>do not</u>*** need to direct your proxy how to vote, and you ***<u>do not</u>*** need to tick any further acknowledgement on the Proxy Form.

ORDINARY RESOLUTION 2: Election of Director - Mr David McArthur

Clause 13.4 of the Company's Constitution provides that any Director appointed since the last Annual General Meeting shall retire from office and be elected at the next following Annual General Meeting. Mr David McArthur was appointed a Director of the Company on 4 September 2013.

Accordingly, pursuant to Rule 13.4 of the Company's Constitution, Mr McArthur retires as a Director and offers himself for election as a Director of the Company.

Details in relation to Mr McArthur are contained in the Company's 2013 annual report.

ORDINARY RESOLUTION 3: Election of Director - Mr Chris Hodge

Clause 13.4 of the Company's Constitution provides that any Director appointed since the last Annual General Meeting shall retire from office and be elected at the next following Annual General Meeting. Mr Chris Hodge was appointed a Director of the Company on 12 November 2013.

Accordingly, pursuant to Rule 13.4 of the Company's Constitution, Mr Hodge retires as a Director and offers himself for election as a Director of the Company.

Details in relation to Mr Hodge are contained in the Company's 2013 annual report.

ORDINARY RESOLUTION 4: Election of Director - Mr Paul Cartwright

Clause 13.4 of the Company's Constitution provides that any Director appointed since the last Annual General Meeting shall retire from office and be elected at the next following Annual General Meeting. Mr Paul Cartwright was appointed a Director of the Company on 24 October 2013.

Accordingly, pursuant to Rule 13.4 of the Company's Constitution, Mr Cartwright retires as a Director and offers himself for election as a Director of the Company.

Details in relation to Mr Cartwright are contained in the Company's 2013 annual report.

ORDINARY RESOLUTION 5: Ratification of Issue of Shares- Placement

As announced to ASX on 17 February 2014, the Company issued 20,000,000 Shares at 5 cents per Share to raise $1,000,000 (**Placement**).

ASX Listing Rule 7.1 provides that the Company must not issue or agree to issue, subject to specified exceptions, during any 12 month period any equity securities which, when aggregated with the number of other securities issued within that 12 month period exceeds 15% of the number of ordinary shares on issue at the beginning of that 12 month period, unless the issue falls within one of the nominated exceptions, or the prior approval of members of the Company at a general meeting is obtained.

Listing Rule 7.4 provides an issue made within the 15% limit will be treated as having been made with the approval of shareholders under Listing Rule 7.1 if subsequently approved by shareholders, thereby 'refreshing' the company's ability to issue shares within the 15% limit, and restoring the company's ability to make placements within that limit (if that is thought desirable) without the need for shareholder approval.

While the Shares described in this Resolution 5 have been issued within the 15% limit, the Company seeks Shareholder ratification of the issue of those Shares for the purpose of Listing Rule 7.4 so that the Company's ability to issue securities will be refreshed and it will have the flexibility to issue further securities should the need or opportunity arise.

In accordance with the requirements of Listing Rule 7.5, the following information is provided to Shareholders to allow them to assess the ratification of the issue of the Shares the subject of this Resolution 5:

(a) the number of Shares issued and allotted by the Company was 20,000,000;

(b) the shares were issued for 5 cents per Share;

(c) the Shares issued rank pari passu with the Company's existing Shares;

(d) the Shares were issued to sophisticated investors pursuant to section 708 of the Corporations Act. None of these subscribers are related parties of the Company; and

(e) the funds raised under the Placement will be used for working capital.

SPECIAL RESOLUTION 6: Approval of 10% Placement Capacity – Shares

General

ASX Listing Rule 7.1A provides that an Eligible Entity may seek Shareholder approval at its annual general meeting to allow it to issue Equity Securities up to 10% of its issued capital over a period up to 12 months after the annual general meeting (**10% Placement Capacity**).

The Company is an Eligible Entity.

If Shareholders approve Resolution 6, the number of Equity Securities the Eligible Entity may issue under the 10% Placement Capacity will be determined in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 (as set out below).

The effect of Resolution 6 will be to allow the Directors to issue Equity Securities up to 10% of the Company's fully paid ordinary securities on issue under the 10% Placement Capacity during the period up to 12 months after the Meeting, without subsequent Shareholder approval and without using the Company's 15% annual placement capacity granted under Listing Rule 7.1.

Resolution 6 is a special resolution. Accordingly, at least 75% of votes cast by Shareholders present and eligible to vote at the Meeting must be in favour of Resolution 6 for it to be passed.

ASX Listing Rule 7.1A

ASX Listing Rule 7.1A came into effect on 1 August 2012 and enables an Eligible Entity to seek shareholder approval at its annual general meeting to issue Equity Securities in addition to those under the Eligible Entity's 15% annual placement capacity.

An Eligible Entity is one that, as at the date of the relevant annual general meeting:

(a) is not included in the S&P/ASX 300 Index; and

(b) has a maximum market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) of $300,000,000.

The Company is an Eligible Entity as it is not included in the S&P/ASX 300 Index and has a current market capitalisation of approximately $8.2 million (at 11 March 2014).

Any Equity Securities issued must be in the same class as an existing class of quoted Equity Securities. The Company currently has one class of quoted Equity Securities on issue, being the Shares (ASX Code XST),

The exact number of Equity Securities that the Company may issue under an approval under Listing Rule 7.1A will be calculated according to the following formula:

$$(A \times B) - C$$

Where:

A is the number of Shares on issue 12 months before the date of issue or agreement:

(i) plus the number of Shares issued in the previous 12 months under an exception in ASX Listing Rule 7.2;

(ii) plus the number of partly paid shares that became fully paid in the previous 12 months;

(iii) plus the number of Shares issued in the previous 12 months with approval of holders of Shares under Listing Rules 7.1 and 7.4.; and

(iv) less the number of Shares cancelled in the previous 12 months.

B is 10%.

C is the number of Equity Securities issued or agreed to be issued under ASX Listing Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue that are not issued with the approval of holders of Ordinary Securities under ASX Listing Rule 7.1 or 7.4.

Technical information required by ASX Listing Rule 7.1A

Pursuant to and in accordance with ASX Listing Rule 7.3A, the information below is provided in relation to this Resolution 6:

(a) **Minimum Price**

The minimum price at which the Equity Securities may be issued is 75% of the volume weighted average price of Equity Securities in that class, calculated over the 15 ASX trading days on which trades in that class were recorded immediately before:

(i) the date on which the price at which the Equity Securities are to be issued is agreed; or

(ii) if the Equity Securities are not issued within 5 ASX trading days of the date above, the date on which the Equity Securities are issued.

(b) **Date of Issue**

The Equity Securities may be issued under the 10% Placement Capacity commencing on the date of the Meeting and expiring on the first to occur of the following:

(i) 12 months after the date of this Meeting; and

(ii) the date of approval by Shareholders of any transaction under ASX Listing Rules 11.1.2 (a significant change to the nature or scale of the Company's activities) or 11.2 (disposal of the Company's main undertaking).

(c) **Risk of voting dilution**

Any issue of Equity Securities under the 10% Placement Capacity will dilute the interests of Shareholders who do not receive any Shares under the issue.

If Resolution 6 is approved by Shareholders and the Company issues the maximum number of Equity Securities available under the 10% Placement Capacity, the economic and voting dilution of existing Shares would be as shown in the table below.

The table below shows the dilution of existing Shareholders calculated on the basis of the current market price of Shares and the current number of Equity Securities on issue as at the date of this Notice.

The table also shows the voting dilution impact where the number of Shares on issue (variable A in the formula) changes and the economic dilution where there are changes in the issue price of Shares issued under the 10% Placement Capacity.

		DILUTION		
Variable"A"		**$0.0235 50% decrease in Issue Price**	**$0.047 Issue price**	**$0.094 100% Increase in Issue Price**
Current Variable A 174,791,063 Shares	**10% Voting Dilution**	17,479,106 Shares	17,479,106 Shares	17,479,106 Shares
	Funds Raised	$410,758	$ 821,518	$1,643,036
50% Increase In Current Variable A 262,186,595 Shares	**10% Voting Dilution**	26,218,659 Shares	26,218,659 Shares	26,218,659 Shares
	Funds Raised	$ 616,138	$ 1,232,277	$ 2,464,554
100% Increase In Current Variable A 349,582,126 Shares	**10% Voting Dilution**	34,958,212 Shares	34,958,212 Shares	34,958,212 Shares
	Funds Raised	$ 821,518	$ 1,643,036	$ 3,286,072

* The number of Shares on issue (variable A in the formula) could increase as a result of the issue of Shares that do not require Shareholder approval (such as under a pro-rata rights issue or scrip issued under a takeover offer) or that are issued with Shareholder approval under Listing Rule 7.1.

The table above uses the following assumptions:

(a) The current shares on issue are the Shares on issue as at 11 March 2014.

(b) No options are exercised into Shares before the date of issue of the Equity Securities.

(c) The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. That is why the voting dilution is shown in each example as 10%.

(d) The issue price set out above is the closing price of the Shares on the ASX on 11 March 2014.

(e) The Company issues the maximum possible number of Equity Securities under the 10% Placement Capacity.

(f) The Company has not issued any Equity Securities in the 12 months prior to the Meeting that were not issued under an exception in ASX Listing Rule 7.2 or with approval under ASX Listing Rule 7.1.

(g) The calculations above do not show the dilution that any one particular Shareholder will be subject to. All Shareholders should consider the dilution caused to their own shareholding depending on their specific circumstances.

(h) This table does not set out any dilution pursuant to approvals under ASX Listing Rule 7.1.

Shareholders should note that there is a risk that:

(i) the market price for the Company's Shares may be significantly lower on the issue date than on the date of the Meeting; and

(ii) the Shares may be issued at a price that is at a discount to the market price for those Shares on the date of issue.

(d) **Purpose of Issue under 10% Placement Capacity**

The Company may issue Equity Securities under the 10% Placement Capacity for the following purposes:

(i) as cash consideration in which case the Company may use funds raised for the acquisition of new resources, assets and investments (including expenses associated with such an acquisition), continued exploration expenditure on the Company's current Californian assets (funds would then be used for project, feasibility studies and ongoing project administration), and general working capital; or

(ii) as non-cash consideration for the acquisition of new resources, assets and investments, in which circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3.

(e) **Allocation under the 10% Placement Capacity**

The allottees of the Equity Securities to be issued under the 10% Placement Capacity have not yet been determined. However, the allottees of Equity Securities could consist of current Shareholders or new investors (or both), none of whom will be related parties of the Company.

The Company will determine the allottees at the time of the issue under the 10% Placement Capacity, having regard to the following factors:

(i) the purpose of the issue;

(ii) alternative methods for raising funds available to the Company at that time, including, but not limited to, an entitlement issue or other offer where existing Shareholders may participate;

(iii) the effect of the issue of the Equity Securities on the control of the Company;

(iv) the circumstances of the Company, including, but not limited to, the financial position and solvency of the Company;

(v) prevailing market conditions; and

(vi) advice from corporate, financial and broking advisers (if applicable).

(f) **Previous Approval under ASX Listing Rule 7.1A**

The Company obtained approval under Listing Rule 7.1A on 31 May 2013. The Company has not issued any Equity Securities pursuant to Listing Rule 7.1A in the 12 months preceding the date of the Annual General Meeting.

As the Company has previously sought shareholder approval for the additional placement capacity under Listing Rule 7.1A, the following information is provided in relation to all issues of equity securities in the 12 months prior to the date of the Annual General Meeting, pursuant to the requirements of Listing Rule 7.3A6(a) and 7.3A6(b):

A total of 62,909,713 ordinary shares have been issued representing 56.2% of the equity securities on issue at the commencement of the 12 month period preceding the date of the Annual General Meeting.

Date of Issue:	**25/06/2013**
Number issued:	7,009,804
Class:	Fully paid ordinary
Terms:	Fully paid ordinary shares
Name of applicants:	Gary Jeffery
Price:	1.7 cents per share
Premium to market:	Premium of 242%
Total cash received:	Nil
Use of cash consideration:	N/A-Debt satisfaction
Intended use of remaining cash:	N/A

Date of Issue:	**2/9/2013**
Number issued:	6,250,000
Class:	Fully paid ordinary
Terms:	Fully paid ordinary shares
Name of applicants:	Paul Cartwright
Price:	0.8 cents per share
Discount to market:	11%
Total cash received:	$ 50,000
Use of cash consideration:	Administration expenses
Intended use of remaining cash:	No remaining funds

Date of Issue:	**3/10/2013**
Number issued:	1,911,765
Class:	Fully paid ordinary
Terms:	Fully paid ordinary shares
Name of applicants:	Gary Jeffery
Price:	1.7 cents per share
Premium to market:	11%
Total cash received:	Nil
Use of cash consideration:	N/A-Debt satisfaction
Intended use of remaining cash:	N/A

Date of Issue:	**28/10/2013**
Number issued:	1,000,000
Class:	Fully paid ordinary
Terms:	Fully paid ordinary shares
Name of applicants:	Keith Martens
Price:	2.2 cents per share
Discount to market:	12%
Total cash received:	Nil
Use of cash consideration:	N/A-Debt satisfaction
Intended use of remaining cash:	N/A

Date of Issue:	**29/11/2013**
Number issued:	1,274,510
Class:	Fully paid ordinary
Terms:	Fully paid ordinary shares
Name of applicants:	Gary Jeffery
Price:	1.7 cents per share
Premium to market:	11%
Total cash received:	Nil
Use of cash consideration:	N/A-Debt satisfaction
Intended use of remaining cash:	N/A

Date of Issue:	**2/9/2013**
Number issued:	11,000,000
Class:	Fully paid ordinary
Terms:	Fully paid ordinary shares
Name of applicants:	Various per S 708 of Corporations Act
Price:	3.0 cents per share
Discount to market:	11.7%
Total cash received:	$ 330,000
Use of cash consideration:	Administration expenses
Intended use of remaining cash:	$ 145,000 acquisition of leases in United States following review of 3(D) data

Date of Issue:	**3/2/2014**
Number issued:	14,463,634
Class:	Fully paid ordinary
Terms:	Fully paid ordinary shares
Name of applicants:	Bombora Resources Pty Ltd shareholders
Price:	5 cents per share
Value of asset acquired:	$ 723,182 (based on price of shares issued)
Discount to market:	9%
Total cash received:	Nil
Use of cash consideration:	N/A-Asset acquisition
Intended use of remaining cash:	N/A

Date of Issue:	**19/2/2014**
Number issued:	20,000,000
Class:	Fully paid ordinary
Terms:	Fully paid ordinary shares
Name of applicants:	Various per S 708 of Corporations Act
Price:	5.0 cents per share
Discount to market:	9%
Total cash received:	$ 1,000,000
Use of cash consideration:	Nil to date
Intended use of remaining cash:	$ 155,000 acquisition of leases in United States following review of 3(D) date. Following the completion of the acquisition of leases in the United States, a detailed analysis of available data will determine proposed drill targets, and on a prioritised basis the balance of funds will be used for exploration drilling and for day to day corporate working capital expenses.

Voting Exclusion

A voting exclusion statement is included in this Notice. As at the date of this Notice, the Company has not invited any existing Shareholder to participate in an issue of Equity Securities under ASX Listing Rule 7.1A. Therefore, no existing Shareholders will be excluded from voting on Resolution 6.

GLOSSARY

$ means Australian dollars.

Annual General Meeting or **Meeting** means the meeting convened by this Notice.

ASX means ASX Limited (ACN 008 624 691) or the Australian Securities Exchange, as the context requires.

ASX Listing Rules means the Listing Rules of ASX.

Closely Related Party of a member of the Key Management Personnel means:
(a) a spouse or child of the member;
(b) a child of the member's spouse;
(c) a dependent of the member or the member's spouse;
(d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
(e) a company the member controls; or
(f) a person prescribed by the Corporations Regulations 2001 (Cth) for the purposes of the definition of 'closely related party' in the Corporations Act.

Company means Xstate Resources Limited **-** ABN 96 009 217 154

Directors means the current directors of the Company.

Explanatory Statement means the explanatory statement accompanying the Notice.

Key Management Personnel has the same meaning as in the accounting standards issued by the Australian Accounting Standards Board and means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, or if the Company is part of a consolidated entity, of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the Company, or if the Company is part of a consolidated entity, of an entity within the consolidated group.

Notice or **Notice of Meeting** or **Notice of Annual General Meeting** means this notice of Annual General Meeting including the Explanatory Statement and the Proxy Form.

Ordinary Securities has the meaning set out in the ASX Listing Rules.

Remuneration Report means the remuneration report set out in the Director's report section of the Company's annual financial report for the year ended 31 December 2013.

Resolutions means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of a Share.

WST means Australian Western Standard Time (Perth, Western Australia).

Instructions for Completing 'Appointment of Proxy' Form

1. (**Changes to Proxy Voting**): Sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Section 250R(5) of the Corporations Act came into effect on 28 June 2012 and will affect the Chair's votes on undirected proxies. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this Annual General Meeting. Broadly, the changes mean that:

   (a) if proxy holders vote, they must cast all directed proxies as directed;

   (b) any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed; and

   (c) the Chair is able to vote undirected proxies in the non-binding vote on the Remuneration Report where the Shareholder provides express authorisation for the Chair to exercise the proxy.

   Further details on these changes are set out below.

2. (**Appointing a Proxy**): A member with two or more votes entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.

3. (**Proxy vote if appointment specifies way to vote**): Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

   (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed);

   (b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands;

   (c) if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and

   (d) if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

4. (**Transfer of non-chair proxy to chair in certain circumstances**): Section 250BC of the Corporations Act provides that, if:

   (a) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members;

   (b) the appointed proxy is not the chair of the meeting;

   (c) at the meeting, a poll is duly demanded on the resolution; and

   (d) either of the following applies:

      (i) the proxy is not recorded as attending the meeting;

      (ii) the proxy does not vote on the resolution,

   the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

5. (**Chair's votes on undirected proxies for Remuneration Reports**): Section 250R(5) of the Corporations Act provides:

   A member of the Key Management Personnel or a Closely Related Party of such a member (the **voter**) may cast a vote on an advisory resolution to adopt a remuneration report as a proxy if the vote is not cast on their behalf and either:

   (a) the voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the resolution; or

(b) the voter is the Chair and the appointment of the Chair as proxy:

(i) does not specify the way the proxy is to vote on the resolution; and

(ii) expressly authorises the Chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, or if the Company is part of a consolidated entity, for the entity.

6. (**Signing Instructions**):

(a) (**Individual**): Where the holding is in one name, the member must sign.

(b) (**Joint Holding**): Where the holding is in more than one name, all of the members should sign.

(c) (**Power of Attorney**): If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

(d) (**Companies**): Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.

7. (**Attending the Meeting**): Completion of a Proxy Form will not prevent individual members from attending the Annual General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the Annual General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the Annual General Meeting.

8. (**Voting in person**):

(a) A Shareholder that is an individual may attend and vote in person at the Meeting. If you wish to attend the Meeting, please bring the attached proxy form to the Meeting to assist in registering your attendance and number of votes. Please arrive 15 minutes prior to the start of the Meeting to facilitate this registration process.

(b) A Shareholder that is a corporation may appoint an individual to act as its representative to vote at the Meeting in accordance with Section 250D of the Corporations Act. The appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the Certificate is enclosed with this Notice of Meeting

9. (**Return of Proxy Form**): To vote by proxy, please complete and sign the enclosed Proxy Form and return the Proxy Form (and any Power of Attorney under which it is signed):

(a) In person to Level 2, 55 Carrington Street, Nedlands, Perth, WA;

(b) By mail to PO Box 985, Nedlands, WA, 6909;

(c) By Facsimile to +61 8 9389 8327;

(d) By scan and email to davidm@broadwaymgt.com.au

so that it is received at least 48 hours prior to commencement of the Annual General Meeting.

Proxy Forms received later than this time will be invalid.

CERTIFICATE OF APPOINTMENT OF CORPORATE REPRESENTATIVE

Shareholder Details

This is to certify that by a resolution of the directors of:

……………………………………………………………………………….……….……….……….. (***Company***),
Insert name of Shareholder Company

the Company has appointed:

……………………..………………………………………………………………………..………..…,
Insert name of corporate representative

in accordance with the provisions of section 250D of the Corporations Act 2001, to act as the body corporate representative of that Company at the annual general meeting of the members of Xstate Resources Limited to be held on Wednesday, 30 April 2014 commencing at 11.00 am (WST) and at any adjournments of that annual general meeting.

DATED ……………………………………………..2014

Please sign here

Executed by the Company)
in accordance with its constituent documents)

......................................………………..…	......................................…………………
Signed by authorised representative	Signed by authorised representative
....……...	....…………………
Name of authorised representative (print)	Name of authorised representative (print)
....………..…	....……………………
Position of authorised representative (print)	Position of authorised representative (print)

Instructions for Completion

- Insert name of appointing Shareholder Company and the name or position of the appointee corporate representative (eg "John Smith" or "each director of the Company").
- Execute the Certificate following the procedure required by your Constitution or other constituent documents.
- Print the name and position (eg director) of each authorised company officer who signs this Certificate on behalf of the Company.
- Insert the date of execution where indicated.
- Prior to the Meeting, send or deliver the Certificate to the registered office of Xstate Resources Limited at Level 2, 55 Carrington Street, Nedlands WA 6009 or fax the Certificate to the registered office at +61 8 9389 8327

PROXY FORM

APPOINTMENT OF PROXY
XSTATE RESOURCES LIMITED
ABN 96 009 217 154

ANNUAL GENERAL MEETING

I/We ______________________________

Address ______________________________

being a Member of Xstate Resources Limited entitled to attend and vote at the Annual General Meeting, hereby

Appoint ______________________________

Name of proxy

OR ☐ the Chair of the Annual General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the Annual General Meeting, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, and subject to the relevant laws as the proxy sees fit (except for Resolution 1 which requires the below express authorisation), at the Annual General Meeting to be held at 11.00 am (WST) on Wednesday, 30 April 2014 at Level 2, 55 Carrington St, Nedlands, Perth, Western Australia, and at any adjournment of that meeting.

The Chair intends to vote undirected proxies in favour of all Resolutions in which the Chair is entitled to vote.

Voting on Business of the Annual General Meeting

	FOR	AGAINST	ABSTAIN
Ordinary Resolution 1 – Adoption of Remuneration Report*	☐	☐	☐
Ordinary Resolution 2 – Election of Director - David McArthur	☐	☐	☐
Ordinary Resolution 3 – Election of Director- Chris Hodge	☐	☐	☐
Ordinary Resolution 4 – Election of Director- Paul Cartwright	☐	☐	☐
Ordinary Resolution 5 – Ratification of placement	☐	☐	☐
Special Resolution 6 – Approval of 10% placement capacity	☐	☐	☐

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not to be counted in computing the required majority on a poll.

***Important for Resolution 1**

If a member of the Key Management Personnel whose remuneration details are included in the Remuneration Report or a Closely Related Party of such a member is your proxy you must direct (in writing) your proxy how to vote on Resolution 1 unless that person is also the Chair in which case you must, in the absence of a direction how to vote, expressly authorise the Chair to exercise the proxy by marking the box below.

☐ I/we direct the Chair to vote in accordance with their voting intentions on Resolution 1 (except where I/we have indicated a different voting intention above) and acknowledge that the Chair may exercise my/our proxy even though Resolution 1 is connected directly or indirectly with the remuneration of a member of the Key Management Personnel of the Company.

If you do not mark this box, and you have not directed the Chair how to vote on Resolution 1, the Chair will not cast your votes on Resolution 1 and your votes will not be counted in calculating the required majority if a poll is called on Resolution 1.

If two proxies are being appointed, the proportion of voting rights this proxy represents is: __________%

Signature of Member(s):______________________________ **Date:** ______________________

Individual or Member 1	**Member 2**	**Member 3**
Sole Director/Company Secretary	**Director**	**Director/Company Secretary**

Contact Name: ____________________ **Contact Ph (daytime):** ________________ **Date:** ____________________

XSTATE RESOURCES LIMITED

ABN 96 009 217 154

ANNUAL REPORT

2013

CONTENTS

CORPORATE DIRECTORY

DIRECTORS AND COMPANY SECRETARY:

Paul Cartwright
Managing Director

Chris Hodge
Non-executive Director

David McArthur
Non-executive Director and Company Secretary

REGISTERED OFFICE:

Level 2
55 Carrington Street
Nedlands WA 6009

PO Box 985
Nedlands WA 6909

Telephone: +61 8 9423 3200
Facsimile: +61 8 9389 8327

PRINCIPAL OFFICE:

Suite 1
45 Ord Street
West Perth WA 6005

PO Box 805
Subiaco WA 6904

Telephone: +61 8 9226 0866

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, The Read Buildings
16 Milligan Street
Perth WA 6000

DOMICILE AND COUNTRY OF INCORPORATION:

Australia

WEBSITE AND EMAIL:

www.xstate.com.au
info@xstate.com.au

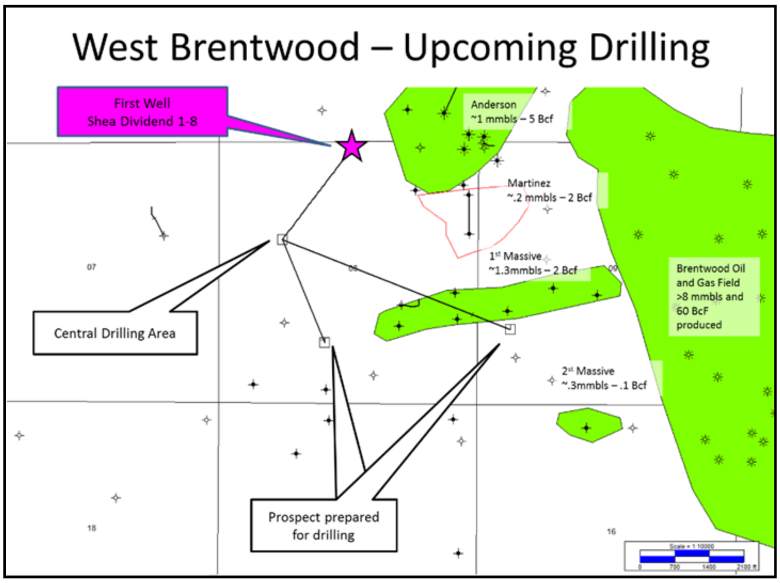
SECURITIES EXCHANGE:

Xstate Resources Limited shares are listed on the Australian Securities Exchange (ASX) – code XST

REVIEW OF OPERATIONS

West Brentwood Prospect (Xstate 16.667%)

In March 2013, Xstate entered into an agreement to acquire a 16.667% working interest in the West Brentwood onshore prospects in northern California. The West Brentwood Prospect Area is located 50km east of San Francisco and just west of the Brentwood oil and gas field which has produced over 8 million barrels (MMbbl) of oil and 60 billion cubic feet (Bcf) of gas, and adjacent to the West Brentwood fields which have produced approximately 3 MMbbl of oil and 9 Bcf of gas.



The Shea Dividend #1-8 exploration well was directionally drilled to a true vertical depth of 1,220m in April – May. After review of the electric and mud logs it was apparent that the primary objective sand-reservoir was absent due to erosion, and the secondary objective sand-reservoir was thicker than prognosed and porous with gas shows (up to Butane (C4)), but was not productive for hydrocarbons and the well was temporarily suspended for future use.

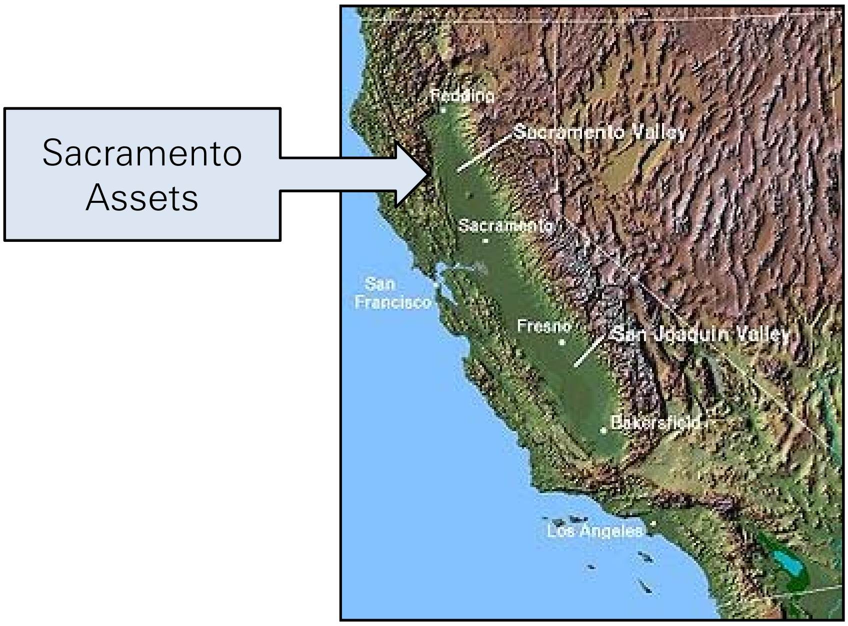
The West Brentwood farm-in includes an Area of Mutual Interest (AMI) which covers approximately 3,000 acres of high quality seismic data. Additional prospects will be considered for drilling in the future.

High Island Block A549 (Xstate 50% - Operator)

Also in March 2013 Xstate became the operator of the 5,760 acres Block HIA549 which is located in US Federal waters off the Gulf of Mexico, approximately 160 km offshore from High Island, Texas. Two possible prospects had previously been identified on the existing 3D seismic data, but following Xstate's own geological and geophysical review of the block (completed end September 2013) and the company's strategic focus on to onshore California it was decided to discontinue exploration over this area.

Acquisition of Producing Assets onshore California (10% WI)

In August 2013 Xstate acquired a 10% working interest (WI) in 7 producing gas wells and associated land leases and production and pipeline access equipment in the Sacramento Basin, California. The acquisition was effective 1 June 2013.



As a result of this acquisition Xstate gained petroleum operational relationships in California which enable the identification, purchase and enhancement of additional similar opportunities. Importantly the acquisition included access to over 500 square kilometres (124,000 acres) of 3D seismic data which can form the basis for generation of future drillable prospects.

Joint venture with AOC onshore California

In October Xstate formed a joint venture with Australian Oil Company Limited covering onshore California, with the aim to explore, drill and, if successful, to develop major hydrocarbon resources. Xstate currently has 30% of the joint venture and has been actively involved in prospect generation, drilling program design and leasing suggestions.

In December the joint venture purchased 1,447 kilometres (900 miles) of 2D seismic data in the Northern Sacramento Basin which, along with its existing data base, has expanded the JV play types and generated a plethora of leads and prospects. The seismic interpretation and integration with regional aeromagnetic/gravity data and publically available information continues.

Identification of world class and paradigm changing gas prospect - Sacramento Basin

Currently the joint venture has identified three different reservoir/seal play types (I to III) in the basin, over which the leasing of land is actively progressing, with mean prospect size ranging in size between 500 BCF to greater than 5 TCF. These potential resources numbers are based upon known basin averages, well data and seismic mapping.

Reservoir/seal play Type I possible size in excess of 5 TCF

Xstate plans to redrill a well which was drilled several years ago and which had strong indications of gas at high pressure. Additional seismic data has been acquired and the prospect remapped. As a result, the area of possible closure has increased in size and become more robust. Xstate has a 25% WI.

Reservoir/seal play Type II possible size in excess of 1 TCF

The JV has identified a world class prospect trend based upon a deep geological knowledge of the basin and the use of seismic stratigraphy. The prospect trend has been identified on seismic and the first prospect has recently been completely leased (Xstate WI 10%).

Reservoir/seal play Type III possible size in excess of 0.5 TCF

Somewhat similar to prospect Type II above, the JV has also completely leased one of this play type and is aware of several follow up leads/prospects along this trend Xstate WI 10%).

Santa Maria Basin – Porter Ranch anticline-possible size 10 million barrels recoverable

Xstate currently has a 22.5% WI in the Porters Ranch anticline within the Santa Maria Basin. The current well plan is to drill to a total depth of 1,500 m (4,900 feet) and intersect potential producible oil within the Monterey Formation. Currently an application to drill the well has been submitted to the local authorities and Xstate is hopeful that a drilling license will be issued during the first quarter of 2014.

Gas Production Assets

Xstate has a 10% WI in seven gas wells in the Sacramento Basin, these wells were purchased when USA gas prices were around USD 3.00/mcf, however with the current cold weather (January 2014) in the USA gas prices are now in excess of USD 5.00/mcf. The rational for the purchase was that it gave access to an extensive 3D seismic database which the joint venture has utilised in generating new exploration plays. Revenues from current gas production volumes are not material to the company.

Extent of Xstate Landholdings

As of the end of December 2013, Xstate had a gross exposure to 21,000 leased acres.

Corporate

Tunisian License transfer

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 in the December quarter of 2012. By June 2013 the company received the approval of Tunisian authorities to transfer the license to Gulfsands Petroleum plc and the balance of cash has been received.

Xstate may potentially receive 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.

Conditional MOU Indonesia

On 19 March 2013 Xstate and Blue Sky Langsa Ltd mutually agreed to terminate the conditional MOU (entered into on 14 February 2013) whereby Xstate was to acquire Blue Sky Langsa and its interest in the Langsa TAC in Indonesia. The termination was due to a combination of timing delays required to satisfy regulatory conditions imposed on the transaction, and timing delays related to the supply of equipment and access to offset opportunities, together with other commercial considerations which increased the risk and lowered potential reward to an unacceptable level for Xstate shareholders.

Agreed acquisition of 75.90% of Bombora Energy Pty Ltd

On the 18th November 2013 Xstate announced the agreed acquisition of 75.90% of Bombora Energy Pty Ltd, for the consideration of 12,892,084 shares in Xstate Resources. The acquisition was approved by Xstate shareholders at a General Meeting held on 31 January 2014.

Changes in Directors

On 11 February 2013 James Brown resigned as a Director of the company and Andrew Childs was appointed as a Director to fill the vacancy.

Ross Kestel resigned as a Director of the Company on the 3rd September 2013 and subsequently David McArthur agreed to take on the role of Non-Executive Director, in addition to his position as Company Secretary.

On the 24th October 2013 Paul Cartwright was appointed as a Director of Xstate Resources and subsequently was appointed as Managing Director on 6th November 2013, upon the resignation of Gary Jeffery.

On the 12th November 2013 Andrew Childs resigned and was replaced by Chris Hodge.

Number of Xstate shares on issue

At the end of December 2013 Xstate had approximately 140 million issued shares. Post the Bombora acquisition a further 12.9 million shares will be issued, so as of the end of January 2014 Xstate will have approximately 153 million shares on issue.

Planned activity – 2014

The company intends to continue leasing over defined prospects in California and, subject to approvals and rig availability, plans to be ready to drill two wells by the end of June 2014.

Competent Persons Statement

The technical information provided has been compiled by Paul Cartwright, Managing Director of Xstate Resources Limited. He is a qualified geologist with over 20 years technical, commercial and management experience in exploration for, appraisal and development, and transportation of oil and gas and mineral and energy resources. Mr Cartwright has reviewed the results, procedures and data contained in this report. Mr Cartwright consents to the inclusion in this report of the information in the form and context in which it appears.

DIRECTORS' REPORT

The Directors present their report together with the financial report of Xstate Resources Limited for the financial year ended 31 December 2013 and the auditor's report thereon.

1. DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

Name	Period of Directorship
Executive	
Paul Cartwright	Director since 24 October 2013.
Gary Jeffery	Director from 8 July 2010 to 6 November 2013
Non-executive	
David McArthur	Director since 4 September 2013
Chris Hodge	Director since 12 November 2013
Andrew Childs	Director from 11 February 2013 to 12 November 2013
Ross Kestel	Director from 6 September 2006 to 3 September 2013
James Brown	Director from 5 April 2011 to 11 February 2013

Paul Cartwright

Managing Director
Appointed: 24 October 2013
Appointed Managing Director on 6 November 2013

Experience and expertise
Paul Cartwright is a seasoned executive with over 20 years of experience in the oil and gas industry, including finance, sales, capital raising, government relations, native title, exploration and drilling. His exploration activities have spanned Western Australia, North America, West Africa and Asia-Pacific in both private and public ventures.

Mr Cartwright was founder and Managing Director of Kingsway Oil Ltd before selling to Hess Corporation in 2011, and has held management positions at Nerdlihc Company Inc., New Standard Exploration and Kirkland Resources. He has consistently and successfully established and expanded business operations in previously under-explored parts of the world.

Mr Cartwright has a Master of Applied Finance, a Master of Science in Petroleum Geology, and a Bachelor of Science in Geology.

Other current directorships
None

Former directorships in the past three years
None

Special responsibilities
None

Interest in shares and options
8,034,358 ordinary shares
10,500,000 options

1. DIRECTORS (continued)

Chris Hodge

Non-executive Director
Appointed: 12 November 2013

Experience and expertise
Chris Hodge is a qualified geologist and petroleum geophysicist with extensive technical experience both in Australia and overseas. He has held managerial positions in major petroleum exploration and production companies and played a significant part in the growth of these companies via a mix of successful exploration and acquisition.

Mr Hodge was Managing Director of ASX-listed Adelphi Energy until 2010 and is currently the Exploration and Production Advisor to Mitsubishi in Australia as well as a non-executive Director on the Board of Roc Oil Company Limited.

Mr Hodge is a member of the Petroleum Exploration Society of Australia ("PESA") and the American Association of Petroleum Geologists ("AAPG"). He is also a Member of the Australian Institute of Company Directors ("MAICD") and holds a Graduate Diploma in Applied Finance and Investment.

Other current directorships

Non-executive Director	Roc Oil Company Limited	7 September 2010 to current

Former directorships in the past three years

None

Special responsibilities
Chair of the Nominations and Remuneration Committee
Member of the Audit and Risk Management Committee

Interest in shares and options
1,763,110 ordinary shares
3,000,000 options

David McArthur

Non-executive Director and Company Secretary
Appointed Company Secretary on 29 October 1999. Appointed Non-executive Director on 4 September 2013

Experience and expertise
David McArthur is a Chartered Accountant, having spent four years with a major international accounting firm, and has over 30 years' experience in the accounting profession. Mr McArthur has been actively involved in the financial and corporate management of a number of public listed companies over the past 27 years.

Mr McArthur has a Bachelor of Commerce Degree from the University of Western Australia.

Mr McArthur has substantial experience in capital raisings, company re-organisations and restructuring, mergers and takeovers, and asset acquisitions by public companies. Mr McArthur is an executive director of Xstate Resources Limited and is also Company Secretary for a number of public listed companies.

1. DIRECTORS (continued)

David McArthur (continued)

Other current directorships

Executive director	Lodestar Minerals Limited	13 August 2007 to current

Former directorships in the past three years

Executive director	Bullabulling Gold Limited	15 September 2011 to 2 July 2012

Special responsibilities
Chair of the Audit and Risk Management Committee
Member of the Nominations and Remuneration Committee

Interest in shares and options
7,293,830 ordinary shares
5,250,000 options

All directors held their positions as a director throughout the entire financial year unless otherwise stated.

2. COMPANY SECRETARY

David McArthur is a chartered accountant and was appointed to the position of company secretary on 29 October 1999. Mr McArthur has over 27 years' experience in the corporate management of publicly listed companies.

3. DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 31 December 2013, and the number of meetings attended by each director was:

Director	Full meetings of directors		Meetings of audit and risk management committee		Meetings of remuneration and nominations committee	
	No. of meetings attended	No. of meetings held whilst a director	No. of meetings attended	No. of meetings held whilst a director	No. of meetings attended	No. of meetings held whilst a director
Paul Cartwright	1	1	-	-	-	-
Chris Hodge	1	1	-	-	-	-
David McArthur	1	1	-	-	-	-
Gary Jeffery	7	7	-	-	-	-
Ross Kestel	7	7	2	2	-	-
Andrew Childs	6	6	2	2	-	-
James Brown	1	1	-	-	-	-

4. REMUNERATION REPORT - AUDITED

This remuneration report sets out the current remuneration arrangements for Non-Executive Directors, Executive Directors and other Key Management Personnel (KMP) of Xstate Resources Limited. For the purposes of this report, key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling major activities of the Group, and includes the executives of the Group receiving the highest remuneration.

Overall the Group believes its remuneration policy and framework is designed to deliver strong alignment of interests between executives and shareholders.

The remuneration report is set out under the following main headings:

(a) Principles of compensation
(b) Directors' and senior executives' remuneration
(c) Analysis of bonuses included in remuneration
(d) Equity instruments

Principles of Compensation - audited

Remuneration is referred to as compensation throughout this report.

The Group has a remuneration policy that aims to provide remuneration that is fair and equitable in terms of external competitiveness. The policy is determined by the Board and administered by management at its discretion.

The policy relates individual remuneration to individual performance, the individual's position in the relevant salary market and the need for the organisation to retain and motivate the individual. No remuneration is directly linked with the overall financial performance of the Group.

To give effect to this policy the Group reviews available information that measures the remuneration levels in the various labour markets in which it competes.

The expectation of the Group is that, for a particular grade of employee, the total fixed compensation will be at the median level of the relevant market.

Other than the issue of options, the directors do not currently receive performance related compensation, short or long term incentives, nor any other benefits.

Fixed compensation
Fixed compensation consists of base compensation (which is calculated on a total cost basis), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Board through a process that considers individual performance. In addition, if required, external consultants provide analysis and advice to ensure the director's compensation is competitive in the market place.

Short-term incentive
Directors may receive short-term incentives for the successful implementation of specific Board approved projects. No such projects or incentives were approved by the Board during the financial year.

Long-term incentive
Subject to shareholder approval, directors may receive options at various times for their ongoing commitment and contribution to the Group. Options were issued to directors during the year.

4. REMUNERATION REPORT – AUDITED (continued)

Principles of Compensation - audited (continued)

Consequences of performance on shareholder wealth

The overall level of key management personnel compensation takes into account the performance of the Company over a number of years, although no remuneration is directly linked with financial performance.

Performance in respect of the current financial year and the previous four financial years is detailed below:

Shareholder returns		2013	2012 Restated	2011 Restated	2010 Restated	2009
Net loss attributable to equity holders	($)	(1,368,998)	(2,562,319)	(3,131,774)	(6,489,295)	(372,643)
Basic EPS (cents)		(1.17)	(2.54)	(4.02)	(20.07)	(0.68)
Closing share price (cents)		3.5	1.5	7	15	4

$484,208 of the 2013 loss reported above, follows a board resolution on 19 December 2013 to change the exploration and development accounting policy such that current and future exploration is expensed through profit and loss.

During the financial years noted above, there were no dividends paid or other returns of capital made by the Company to its shareholders.

As the Group is still in the exploration phase of its operations, and as such does not generate revenue, the financial performance set out in the table above is not a good indicator for determining appropriate levels of remuneration.

Service contracts

On 1 November 2013, a deed of executive services was entered into with Paul Cartwright, whereby Mr Cartwright is paid a total remuneration package of $200,000 per annum for 70% of his time, effective 1 November 2013. This shall comprise $100,000 cash and $100,000 in shares, such shares issued on a calendar quarterly basis. The issue of shares was subject to shareholder approval which was obtained on 31 January 2014. The issue price of the shares will be the mathematical average of the VWAP for the first 5 trading days in the calendar quarter and the VWAP for the last 5 trading days in the calendar quarter.

The contract also granted 10.5 million options to Paul Cartwright or nominee as applicable on the following terms:

- 3.5 million exercisable at 6 cents on or before 31 December 2015
- 3.5 million exercisable at 8 cents on or before 31 December 2015
- 3.5 million exercisable at 10 cents on or before 31 December 2015

Shareholders approved the issue of the options on 31 January 2014.

The contract can be terminated with three months' notice by each party.

On 20 July 2010, an employment service agreement was entered into with David McArthur for the provision of corporate and secretarial services to the Company. The agreement is for $50,000 plus superannuation and was effective from 8 July 2010. The agreement may be terminated by the Company or Mr McArthur with three months' notice.

Having regard to the Company cash balances, with effect from 1 July 2013 the payment to David McArthur comprises $30,000 cash and $20,000 in shares, such shares issued on a calendar quarterly basis and subject to shareholder approval which was obtained on 31 January 2014. The pricing formula is as for Mr Cartwright.

4. REMUNERATION REPORT – AUDITED (continued)

Principles of Compensation – audited (continued)

Executive and non-executive compensation
Mr Cartwright's directors fees are included as part of his service contract as Managing Director of the Company.

Pursuant to a share plan approved by shareholders at the AGM on 31 May 2013, consideration for accrued fees payable to Gary Jeffery was satisfied in full by the issue of a total of 10,196,079 shares at 1.7 cents each, for a total value of $173,334, as follows:

	Amount $	Number of Plan Shares issued at a deemed price of 1.7 cents
Fees deferred as at 31 May 2013	119,167	7,009,804
Fees forgone quarter ended 31 August 2013	32,500	1,911,765
Fees forgone period 1 September 2013 to 6 November 2013	21,667	1,274,510
	173,334	10,196,079

Total compensation for all non-executive directors, last voted upon by Shareholders at the 2011 AGM, is not to exceed $400,000 per annum. Non-executive directors' fees are presently $32,500 per annum each.

The payment of fees to non-executive directors was reduced from $35,000 to $32,500 p.a., per director, effective 1 October 2012.

The non-executive directors have elected to receive 50% of their fees by way of the issue of shares, with the pricing formula being the same as that for Paul Cartwright. Shareholders approved this basis of payment on 31 January 2014. Accounting standards require the amount owing at 31 December 2013 to reflect the market value of the shares subsequently granted.

	50% accrued at 31 December 2013 $	Number of Shares issued approved by shareholders	Fair value of shares at 31 December 2013 3.5 cents each $
Executive directors			
Paul Cartwright	16,667	579,358	20,277
Non-executive directors			
David McArthur	4,958	301,061	10,537
Chris Hodge	2,212	83,904	2,937
Senior executives			
David McArthur	10,000	607,224	21,253
	33,837	1,571,547	55,004

Non-executive directors may receive performance related compensation. Options were issued to non-executive directors during the year. Directors' fees cover all main Board activities and include statutory superannuation (where appropriate).

Services from remuneration consultants
No remuneration consultants provided services during the year.

4. REMUNERATION REPORT – AUDITED (continued)

Directors' and senior executives' remuneration - audited

Details of the nature and amount of each element of the compensation of each of the directors and key management personnel of the Company and the Group are shown below:

Name		Short-term employee benefits			Post Employment benefits	Share Based payments (e)	Total	% of remuneration performance based	Value of Options as % of remuneration
		Cash salary and fees	Non-Monetary Benefits (9)	Total	Super-annuation (10)				
		$	$	$	$	$	$	%	%
Non-executive directors									
Chris Hodge [1] [b]	2013	2,212	700	2,912	-	2,937	5,849	-	-
	2012	-	-	-	-	-	-	-	-
David McArthur [2]	2013	4,958	1,699	6,657	917	10,537	18,111	-	-
	2012	-	-	-	-	-	-	-	-
Sub-total non-executive directors remuneration	2013	7,170	2,399	9,569	917	13,474	23,960	-	-
	2012	-	-	-	-	-	-	-	-
Executive directors									
Paul Cartwright [3] [a]	2013	16,667	871	17,538	-	20,277	37,815	-	-
	2012	-	-	-	-	-	-	-	-
Total current directors remuneration	2013	23,837	3,270	27,107	917	33,751	61,775	-	-
	2012	-	-	-	-	-	-	-	-

[1] Appointed 12 November 2013
[2] Appointed 4 September 2013
[3] Appointed 24 October 2013. Appointed Managing Director 6 November 2013

4. REMUNERATION REPORT – AUDITED (continued)

Directors' and senior executives' remuneration - audited (continued)

Name		Short-term employee benefits			Post Employment benefits	Share Based payments (e)	Total	% of remuneration performance based	Value of Options as % of remuneration
		Cash salary and fees	Non-Monetary benefits (9)	Total	Super-annuation (10)				
		$	$	$	$	$	$	%	%
Former directors									
Gary Jeffery [4] [c]	2013	92,782	4,341	97,123	-	134,077	231,200	-	11.1%
	2012	250,000	4,231	254,231	-	-	254,231	-	-
Ross Kestel [5]	2013	19,878	3,512	23,390	1,801	5,025	30,216	-	16.6%
	2012	55,619	4,231	59,850	5,006	-	64,856	-	-
Andrew Childs [6]	2013	22,286	3,912	26,198	2,033	10,050	38,281	-	26.3%
	2012	-	-	-	-	-	-	-	-
James Brown [7]	2013	3,458	600	4,058	-	-	4,058	-	-
	2012	56,875	4,231	61,106	-	-	61,106	-	-
David Whitby [8] [d]	2013	-	-	-	-	-	-	-	-
	2012	45,000	2,081	47,081	-	-	47,081	-	-
Sub-total former directors	2013	138,404	12,365	150,769	3,834	149,152	303,755	-	13.4%
	2012	407,494	14,774	422,268	5,006	-	427,274	-	-
Total directors remuneration	2013	162,241	15,635	177,876	4,751	182,903	365,530	-	11.5%
	2012	407,494	14,774	422,268	5,006	-	427,274	-	-

[4] Resigned 6 November 2013
[5] Resigned 3 September 2013
[6] Appointed 11 February 2013 and resigned 12 November 2013
[7] Resigned 11 February 2013
[8] Resigned 10 June 2012

[9] Comprises Directors and Officers insurance premiums
[10] Where superannuation is not paid, fees are paid to a consultancy company.

4. REMUNERATION REPORT – AUDITED (continued)

Directors' and senior executives' remuneration - audited (continued)

Name		Short-term employee benefits			Post Employment benefits	Share Based payments (e)			
		Cash salary and fees $	Non-Monetary benefits $	Total $	Super-annuation $	$	Total $	% of remuneration performance based %	Value of Options as % of remuneration %
Senior executive									
David McArthur	2013	40,450	3,512	43,962	4,113	26,278	74,353	-	8.0%
	2012	50,000	4,231	54,231	4,500	-	58,731	-	-
Sub-total senior executive remuneration	2013	40,450	3,512	43,962	4,113	26,278	74,353	-	8.0%
	2012	50,000	4,231	54,231	4,500	-	58,731	-	-
Total directors and senior executive remuneration	2013	202,691	19,147	221,838	8,864	209,181	439,883	-	10.9%
	2012	457,494	19,005	476,499	9,506	-	486,005	-	-

4. REMUNERATION REPORT – AUDITED (continued)

Directors' and senior executives' remuneration - audited (continued)

Notes in relation to the table of directors' remuneration – audited

(a) directors fees for Paul Cartwright were paid to Kingsway Resources Pty Ltd, a company associated with Paul Cartwright;

(b) directors fees for Chris Hodge were paid to CCH Resources Pty Ltd, a company associated with Chris Hodge;

(c) directors fees for Gary Jeffery were paid to Dungay Resources Pty Ltd, a company associated with Gary Jeffery;

(d) cash salary and fees 2012 includes $36,000 paid to David Whitby representing additional consulting services;

(e) Share based payments includes an amount of $55,004, being the fair value of the shares to be issued in satisfaction of fees owing to Directors at 31 December 2013, however such shares were not issued until 31 January 2014, when shareholders approved the share issues to Directors.

Shareholders approved the issue of shares to satisfy fees owing at 31 December 2013 totalling $33,837. The difference of $21,167 is the difference between the amount owing at 31 December 2013 and the fair value of the shares subsequently granted with shareholder approval on 31 January 2014.

Although the shares had not been issued at 31 December 2013, and the amount owing at 31 December 2013 was $33,837, the accounting standards require that the amount owing be disclosed as share based payments and to also reflect the fair value of the shares subsequently granted after year end, as if the shares had actually been granted as at the 31 December 2013 reporting date, albeit shareholder approval was not obtained to issue the shares until 31 January 2014. The fair value has been calculated using the share price of 3.5 cents each as at 31 December 2013.

Analysis of bonuses included in remuneration - audited.

No short-term incentive cash bonuses have been awarded as remuneration to Directors of the Group or to Group Executives.

Equity instruments - audited

All options refer to options over ordinary shares of Xstate Resources Limited, which are exercisable on a one-for-one basis.

4. REMUNERATION REPORT – AUDITED (continued)

Equity instruments - audited (continued)

Options and rights over equity instruments granted as compensation – audited

Details of options over ordinary shares in the Company that were granted as compensation to directors and key management personnel during the reporting period are as follows:

Tranche	Number of options granted during 2013	Grant date	Fair value per option at grant date cents (per option)	% vested in year (A)	% forfeited in year (B)	Financial years in which grant vests	Exercise Price per option cents	Expiry date	Number of options vested during 2013
Executive directors									
Gary Jeffery	3,500,000	31-May-13	0.30	100	-	1-Jan-13	4.0	31-May-16	3,500,000
	3,500,000	31-May-13	0.21	100	-	1-Jan-13	6.0	31-May-16	3,500,000
	3,500,000	31-May-13	0.16	100	-	1-Jan-13	8.0	31-May-16	3,500,000
Non-executive directors									
Ross Kestel	750,000	31-May-13	0.30	100	-	1-Jan-13	4.0	31-May-16	750,000
	750,000	31-May-13	0.21	100	-	1-Jan-13	6.0	31-May-16	750,000
	750,000	31-May-13	0.16	100	-	1-Jan-13	8.0	31-May-16	750,000
Andrew Childs	1,500,000	31-May-13	0.30	100	-	1-Jan-13	4.0	31-May-16	1,500,000
	1,500,000	31-May-13	0.21	100	-	1-Jan-13	6.0	31-May-16	1,500,000
	1,500,000	31-May-13	0.16	100	-	1-Jan-13	8.0	31-May-16	1,500,000
Senior executives									
David McArthur	750,000	31-May-13	0.30	100	-	1-Jan-13	4.0	31-May-16	750,000
	750,000	31-May-13	0.21	100	-	1-Jan-13	6.0	31-May-16	750,000
	750,000	31-May-13	0.16	100	-	1-Jan-13	8.0	31-May-16	750,000

(A) The percentage vested in the year represents the number of options that become unconditional due to the recipient satisfying specified vesting conditions (if any);

(B) The percentage forfeited in the year represents the reduction from the maximum number of options available to vest due to performance criteria not being achieved.

4. REMUNERATION REPORT – AUDITED (continued)

Equity instruments - audited (continued)

Exercise of options granted as compensation - audited
During the reporting period, no shares were issued on the exercise of options previously granted as compensation.

Analysis of movements in options - audited
The movement during the reporting period, by value, of options over ordinary shares in the Company, held by directors and key management personnel is detailed below:

	Granted in year $ (A)	Value of options exercised in year $	Lapsed in year $
Executive directors			
Gary Jeffery	23,450	-	-
Non-executive directors			
Ross Kestel	5,025	-	-
Andrew Childs	10,050	-	-
Senior executives			
David McArthur	5,025	-	-

Notes in relation to the table on analysis of movements in options - audited
(A) The value of options granted in the year is the fair value of the options calculated at grant date using the Black Scholes option-pricing model.

This is the end of the Remuneration Report.

5. PRINCIPAL ACTIVITIES

The principal activity of the Group during the course of the financial year was interests in oil and natural gas exploration.

6. OPERATING AND FINANCIAL REVIEW

Summary of material transactions

On 19 March 2013 Xstate and Blue Sky Langsa Ltd mutually agreed to terminate the conditional MOU (entered into on 14 February 2013) whereby Xstate was to acquire Blue Sky Langsa and its interest in the Langsa TAC in Indonesia. The termination was due to a combination of timing delays required to satisfy regulatory conditions imposed on the transaction, and timing delays related to the supply of equipment and access to offset opportunities, together with other commercial considerations which increased the risk and lowered potential rewards to an unacceptable level for Xstate shareholders.

On 19 March 2013 Xstate concluded an agreement to acquire a 16.667% working interest in the West Brentwood onshore prospect in northern California. Under the terms of the deal Xstate farmed-in to the prospect area by paying 25% of the first US$1,000,000 spent on drilling activity (i.e. US$250,000) and thereafter pay its earned working interest share of 16.667%.

On 19 March 2103 Xstate acquired a 50% working interest in the High Island Block A549 ("HIA549"), offshore Texas, in the Gulf of Mexico. As consideration for the working interest Xstate issued one million shares to the vendor. Under the terms of the deal Xstate will operate activity within the HIA549 Block.

On 27 March 2013 the Company issued 10 million shares at 1.75 cents each to raise $175,000 in working capital.

On 5 August 2013 the Company acquired a 10% working interest in seven producing gas wells and associated land leases and production and pipeline access equipment in the Sacramento Basin, California for a consideration of US$37,500 (A$40,576). The effective date of the acquisition was 1 June 2013.

On 2 September 2013 the Company issued 6,250,000 shares at 0.8 cents each to raise $50,000 in working capital.

On 22 October the Company entered into an Area of Mutual Interest Alliance with Australian Oil Company Limited in relation to joint venture opportunities in California, USA.

On 18 November 2013 Xstate signed a binding Heads of Agreement with the major shareholders of Bombora Energy Pty Ltd (Bombora) to acquire 75.90% of the shares on issue in Bombora. The assets of Bombora are:

- 22.5% Working Interest in 9051 acres of leases with prospectivity for oil on the Porter Ranch in San Luis Obispo, California.
- 10.94% Working Interest in the SCU1-24 well near Coalinga, Fresno County, California, which is planned to be used as a commercial water injection well.
- 6.67% Working Interest in an AMI covering 3,000 acres of seismic and associated leases at West Brentwood, Contra County, California.

The consideration for the acquisition of 75.90% of Bombora was 12,892,084 Xstate shares. The acquisition was subject to the agreement of Bombora shareholders holding 75.90% of Bombora and approval of Xstate shareholders to issue the consideration shares. Xstate shareholder approval was obtained on 31 January 2014.

On 12 December 2013 the Company placed 11 million shares at 3 cents each to raise $330,000 in working capital.

6. OPERATING AND FINANCIAL REVIEW (continued)

Financial Results

The loss for the financial year ended 31 December 2013 attributable to members of Xstate Resources Limited after income tax was $1,368,998 (2012 Restated: loss of $2,562,319).

$484,208 of the loss follows a board resolution on 19 December 2013 to change the exploration and development accounting policy such that current and future exploration is expensed through profit and loss. Comparative figures have been represented to reflect the change in accounting policy (see note 8 of the notes to the consolidated financial statements).

During the financial years 2009 to 2013, there were no dividends paid or other returns of capital made by the Company to its shareholders. Refer to consequences of performance on shareholder wealth table in the Remuneration Report for a detailed breakdown.

Net loss amounts for 2009 to 2013 have been calculated in accordance with Australian Accounting Standards (AASBs).

Review of Financial Condition

During the year the net assets of the Group reduced by $486,569 from $759,174 (restated) at 31 December 2012 to $272,605 at 31 December 2013. This resulted primarily from the change in accounting policy to expense exploration and development expenditure as incurred and other operating expenditure partially offset by the increase in issued capital.

Significant changes in the state of affairs

In the opinion of the directors there were no matters that significantly affected the state of affairs of the Group during the financial year in review, other than those matters referred to in the summary of material transactions and operations report.

7. DIVIDENDS

The directors recommend that no dividend be provided for the year ended 31 December 2013.

8. EVENTS SUBSEQUENT TO REPORTING DATE

Other than the matters disclosed in note 31 of the notes to the consolidated financial statements, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

9. LIKELY DEVELOPMENTS

The Group will continue to grow its exploration portfolio in California, USA.

10. DIRECTORS' INTERESTS

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the Company, as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Director	Ordinary Shares	Options over ordinary shares
Paul Cartwright	8,034,358	10,500,000
Chris Hodge	1,763,110	3,000,000
David McArthur	7,293,830	5,250,000

11. SHARE OPTIONS

Options granted to directors of the Company

During, or since the end of the reporting period, the Company granted options for no consideration over unissued ordinary shares in the Company to the following directors and senior executives as part of their remuneration:

	Number of options granted	Exercise price per option cents	Expiry date
Executive directors			
Gary Jeffery	3,500,000	4	31 May 2016
	3,500,000	6	31 May 2016
	3,500,000	8	31 May 2016
Paul Cartwright	3,500,000	6	31 December 2015
	3,500,000	8	31 December 2015
	3,500,000	10	31 December 2015
Non-executive directors			
Ross Kestel	750,000	4	31 May 2016
	750,000	6	31 May 2016
	750,000	8	31 May 2016
Andrew Childs	1,500,000	4	31 May 2016
	1,500,000	6	31 May 2016
	1,500,000	8	31 May 2016
David McArthur	1,000,000	6	31 December 2015
	1,000,000	8	31 December 2015
	1,000,000	10	31 December 2015
Chris Hodge	1,000,000	6	31 December 2015
	1,000,000	8	31 December 2015
	1,000,000	10	31 December 2015
Senior executives			
David McArthur	750,000	4	31 May 2016
	750,000	6	31 May 2016
	750,000	8	31 May 2016

The options tabled above were provided at no cost to the recipients. All options expire on the earlier of their expiry date or termination of the individuals' employment in accordance with the Group's Employee Share Option Plan rules.

11. SHARE OPTIONS

Unissued shares under options

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise price	Number of shares
31-May-2016	4 cents	6,500,000
31-May-2016	6 cents	6,500,000
31-May-2016	8 cents	6,500,000
31-December-2015	6 cents	5,500,000
31-December-2015	8 cents	5,500,000
31-December-2015	10 cents	5,500,000
31-December-2016	5 cents	2,500,000
		38,500,000

No option holder has any right under the options.

Shares issued on exercise of options

During or since the end of the financial year, no shares were issued as a result of the exercise of options.

Options expired

On 21 January 2013, 66,667 options with an exercise price of 24 cents each expired.

On 30 June 2013, 48,438,061 options with an exercise price of 24 cents each expired.

12. INDEMNIFICATION AND INSURANCE OF OFFICERS

During the financial year, Xstate Resources Limited paid a premium of $19,147 (2012: $19,005) (excluding GST) to insure the Directors and Company Secretary of the Company and the current directors and Company Secretary of its controlled entity.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against officers acting in their capacity for the entity and other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

The Group has agreed to indemnify each of the directors, the company secretary of the Company and the current directors and company secretary of its controlled entity, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and company secretary of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

No agreements have been entered into to indemnify the Company's current auditors against any claims by third parties arising from their report on the Annual Financial Report.

13. NON-AUDIT SERVICES

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditors expertise and experience with the Group are important.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of these non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for non-audit services provided during the year are set out below:

	2013 $	2012 $
Taxation Services		
KPMG Australia		
Taxation compliance services	12,000	17,750
Total remuneration from non-audit services	**12,000**	**17,750**

14. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration forms part of the directors' report for the financial year ended 31 December 2013.

This Directors' report is made with a resolution of the directors.

D McArthur

DAVID MCARTHUR
Director

Dated at Perth, Western Australia this 12th day of March 2014.

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 audit for the financial year ended 31 December 2013 there have been:

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

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

KPMG

Grant Robinson
Partner

Perth

12 March 2014

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Xstate Resources Limited (the Board) is responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of Xstate Resources Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the Australian Securities Exchange (ASX) Corporate Governance Council June 2010 amendments to the *August 2007 "Corporate Governance Principles and Recommendations (Second Edition)" ("the Recommendations"),* unless otherwise stated.

As required under ASX Listing Rule 4.10.3, the Group makes the following disclosures in relation to each of the Recommendations. A checklist, cross referencing the ASX Principles to the relevant section of this Statement, the Remuneration Report or Financial Report, follows these disclosures.

1. BOARD OF DIRECTORS

(a) Role of the Board and responsibilities

The primary role of the Board is to oversee and approve the Group's strategic direction, to oversee the Group's management and business activities and to report to shareholders. The roles and responsibilities of the Board are formalised in written policies. All documents can be accessed on the Company's website at www.xstate.com.au under the Corporate Governance section.

The Board evaluates these policies on an ongoing basis.

In addition to matters required by law to be approved by the Board, responsibilities include, but are not limited to:

- the establishment of the long term goals of the Company and strategic plans to achieve those goals;
- monitoring the achievement of those goals;
- the review of management accounts and reports to monitor the progress of the Company;
- the review and adoption of budgets for the financial performance of the Company and monitoring the results on a regular basis to assess performance;
- the review and approval of the annual and half-year financial reports;
- nominating and monitoring the external auditor;
- approving all significant business transactions;
- appointing and monitoring senior management;
- all remuneration, development and succession issues; and
- ensuring that the Company has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities.

Responsibility for management of Xstate's day to day business activities is delegated to the Managing Director who is accountable to the Board.

1. BOARD OF DIRECTORS (continued)

(b) Board composition and expertise

The names of the directors of the Company in office at the date of the statement are set out in the directors' report. The directors' report also contains details of each director's skill, experience and education. The Board seeks to establish a Board that consists of directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Company's business with excellence.

The Board currently comprises three directors - one executive director, one independent non-executive director and one non-executive director.

The Board reviews its composition as required to ensure that the Board has the appropriate mix of commercial and financial skills, technical expertise, industry experience, and diversity (including, but not limited to gender and age) for which the Board is looking to achieve in its membership. The Board is primarily responsible for identifying potential new directors but has the option to use an external consulting firm to identify and approach possible new candidates for directorship. When a vacancy exists, or where it is considered that the Board would benefit from the services of a new director with particular skills, candidates with the appropriate experience, expertise and diversity are considered. Each incumbent director is given the opportunity to meet with each candidate on a one to one basis. The full Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of shareholders.

(c) Retirement and re-election of directors

The Constitution of the Company requires one third of directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board since the last Annual General Meeting are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of directors to retire at that Annual General Meeting. Retiring directors are eligible for re-election by shareholders.

(d) Independence of directors

The Board has reviewed the position and association of each of the three directors in office at the date of this report and considers that one director is independent. In considering whether a director is independent, the Board has regard to the independence criteria in ASX Corporate Governance Principles and Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of the other directors, as appropriate.

The Board considers that, Mr Hodge meets the criteria in Principle 2. He has no material business or contractual relationship with the Company, other than as a director, and no conflicts of interest which could interfere with the exercise of independent judgement. Accordingly, he is considered to be independent.

(e) Director education

The non-executive directors are given every opportunity to gain a better understanding of the business, the industry, and the environment within which the Group operates, and are given access to continuing education opportunities to update and enhance their skills and knowledge.

(f) Independent professional advice

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior approval of the Chairperson, each director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

1. BOARD OF DIRECTORS (continued)

(g) Board Performance Review

There is no formal appraisal system in place for Board performance on a director by director basis. The performance of all directors is assessed through review by the Board as a whole of a director's attendance at, and involvement in, Board meetings, his performance and other matters identified by the Board or other directors. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a director's performance.

The Company has not conducted a performance evaluation of the members of the Board during the reporting period. However, the Board conducts a review of the performance of the Company against budgeted targets on an ongoing basis.

(h) Conflict of Interest

Directors must keep the Board advised of any interest that could potentially conflict with those of the Company.

(i) Directors' remuneration

Details of the Company's remuneration policies are included in the "Remuneration Report" section of the Directors' Report.

2. BOARD COMMITTEES

(a) Board committees and membership

The Board currently has two standing committees to assist in the discharge of its responsibilities. These are the:

- Audit and Risk Management Committee; and
- Remuneration and Nomination Committee.

To facilitate the execution of its responsibilities, the Board's Committees provide a forum for a more detailed analysis of key issues. Each Committee is entitled to the resources and information it requires to carry out its duties, including direct access to advisors and employees. Current membership of the committees of the Xstate Resources Board, are set out in section 2(b) and 2(c).

(b) Audit And Risk Management Committee

The audit and risk management committee consists of all non-executive directors. The role of the audit and risk management committee is documented in a Charter which is approved by the Board of Directors. The Chairperson may not be the Chairperson of the Board. The role of the committee is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group.

It also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report.

The members of the audit and risk management committee for the Company at the date of this report were:

- David McArthur – non-executive director (Chair);
- Chris Hodge – independent non-executive director.

The external auditors and the managing director are invited to audit and risk management committee meetings at the discretion of the committee. The committee met twice during the year and committee members' attendance record is disclosed in the table of directors' meetings.

2. BOARD COMMITTEES (continued)

(b) Audit And Risk Management Committee (continued)

The external auditor met with the audit and risk management committee and the Board of directors twice during the year.

The responsibilities of the audit and risk management committee include:

- to review the financial report and other financial information distributed externally;
- to monitor corporate risk assessment processes;
- to review any new accounting policies to ensuring compliance with Australian Accounting Standards and generally accepted accounting principles;
- to review audit reports ensuring that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- to review the nomination and performance of the auditor;
- to liaise with the external auditors ensuring that the annual and half-year statutory audits are conducted in an effective manner;
- to monitor the establishment of an appropriate internal control framework and consider enhancements;
- to monitor the establishment of appropriate ethical standards;
- to monitor the procedures in place ensuring compliance with the Corporations Act 2001, the Australian Securities Exchange Listing Rules and all other regulatory requirements;
- to address any matters outstanding with auditors, the Australian Taxation Office, the Australian Securities and Investments Commission, the Australian Securities Exchange and other financial institutions; and
- to improve the quality of the accounting function.

The audit and risk management committee reviews the performance of the external auditors on an annual basis and meets with them during the year.

(c) Remuneration And Nomination Committee

The remuneration and nomination committee consists of all non-executive directors.

- Chris Hodge – independent non-executive director (Chair);
- David McArthur – non-executive director.

The committee did not meet during the year.

2. BOARD COMMITTEES (continued)

(c) Remuneration And Nomination Committee

The remuneration and nomination committee operates in accordance with its Charter. The main responsibilities of the committee are:

- to review the size and composition of the Board;
- to review and advise the Board on the range of skills available on the Board and appropriate balance of skills for future Board membership;
- to review and consider succession planning for the managing director, the chairman and other directors;
- to develop criteria and procedures for the identification of candidates for appointment as directors and apply the criteria and procedures to identify prospective candidates for appointment as a director and make recommendations to the Board;
- to make recommendations to the Board regarding any directors who should not continue in office;
- to nominate for approval by the Board external experts;
- to determine remuneration policies and remuneration of directors;
- to determine the Company recruitment, retention and termination policies and procedures for senior management;
- to determine and review incentive schemes;
- to determine and review superannuation arrangements of the Company; and
- to determine and review professional indemnity and liability insurance for directors.

Further details of remuneration arrangements in place for the directors and executives are set out in the Directors' Report.

3. MANAGING BUSINESS RISK

The Board believes that risk management and compliance are fundamental to sound management and that oversight of such matters is an important responsibility of the Board. The Group maintains policies and practices designed to identify and manage significant business risks, including:

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Company's business plan;
- corporate strategy guidelines and procedures to review and approve the Company's strategic plans; and
- insurance and programmes which are reviewed by the Board.

The Board reviews these systems and the effectiveness of their implementation annually and considers the management of risk at its meetings. The Company's risk profile is reviewed annually. The Board may consult with the Company's external auditors on external risk matters or other appropriately qualified external consultants on risk generally, as required.

3. MANAGING BUSINESS RISK (continued)

(a) Internal controls

Procedures have been established at the Board and executive management levels that are designed to safeguard the assets and interests of the Company, and to ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures. To achieve this, the executive directors perform the following procedures:

- ensure appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with Board requirements; and
- conduct a detailed review of published accounts.

(b) CEO and CFO assurance on corporate reporting

The Board receives monthly management reports about the financial condition and operational results of the consolidated group. The Chief Executive Officer (or equivalent) and Chief Financial Officer (or equivalent) annually provide a formal statement, in accordance with section 295A of the Corporations Act, to the Board that in all material respects and to the best of their knowledge and belief:

- the Company's financial reports present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and
- the Company's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

(c) Environmental regulation

The Company has a policy of at least complying, but in most cases exceeding, its environmental performance obligations. No environmental breaches have been notified by any Government agency during the year ended 31 December 2013.

4. ETHICAL STANDARDS

All directors and executives are expected to act with the utmost integrity and objectivity, striving at all times to enhance the performance and reputation of the Company and its controlled entities.

(a) Code of Conduct

In pursuit of the highest ethical standards, the Company has adopted a Code of Conduct which establishes the standards of behaviour required of directors and employees in the conduct of the Company's affairs. This Code is provided to all directors and employees. The Board monitors implementation of this Code. Unethical behaviour is to be reported to the Chairperson as soon as practicable.

The Code of Conduct is based on respect for the law, and acting accordingly, dealing with conflicts of interest appropriately, using the consolidated entity's assets responsibly and in the best interests of the Company, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

The Group has advised each director, manager and employee that they must comply with the Group's Ethical Standards.

4. ETHICAL STANDARDS (continued)

(b) Diversity Policy

The Company has established a Diversity Policy which provides the written framework and objectives for achieving a work environment that values and utilises the contributions of employees' backgrounds, experiences, and perspectives, irrespective of gender, age, ethnicity and cultural background *. The Board is responsible for developing, where possible, measurable objectives and strategies to support the framework and objectives of the Diversity Policy. The Remuneration and Nomination Committee is responsible for monitoring the progress of the measurable objectives through various monitoring, evaluation and reporting mechanisms. Currently, there are no vacant Board positions.

The key elements of the diversity policy are as follows:

- increased gender diversity throughout the Group when a position becomes available;
- annual assessment of the board gender diversity objectives and performance against objectives by the board and nomination committee.

Due to size of the Company and there being no requirement to increase staff levels, there has been limited opportunity to implement the diversity policy in its entirety. As a result, the Company has not yet met its objectives. However, the Company outsources its corporate and accounting services to Broadway Management (WA) Pty Ltd where 80% of its employees are represented by female members. Should a Board position become vacant, the Company will endeavour to fill any new board appointment or key management personnel position with a suitably qualified female applicant.

Pursuant to *Recommendation 3.4* of the Recommendations, the Company discloses the following information as at the date of this report:

	31 December 2013		31 December 2012	
Gender representation	Women	Men	Women	Men
Group representation	25%	75%	20%	80%
Senior management representation	0%	100%	0%	100%
Board representation	0%	100%	0%	100%
Corporate services provider representation	80%	20%	80%	20%

The Diversity Policy can be accessed on the Company's website at www.xstate.com.au under the Corporate Governance section.

(c) Trading in Company securities by directors and employees

The Board has adopted a policy in relation to dealings in the securities of the Company which applies to all directors and employees. Under the policy, directors are prohibited from short term or "active" trading in the Company's securities and directors and employees are prohibited from dealing in the Company's securities whilst in possession of price sensitive information. The Chairperson (or in his place the Managing Director) must also be notified of any proposed transaction.

This policy is provided to all directors and employees. Compliance with it is reviewed on an ongoing basis in accordance with the Company's risk management systems.

5. COMMUNICATION WITH SHAREHOLDERS

The Board aims to ensure that shareholders are kept informed of all major developments affecting the Company. Information is communicated to shareholders as follows:

- as the Company is a disclosing entity, regular announcements are made to the Australian Securities Exchange in accordance with the Company's continuous disclosure policy, including quarterly reports, half-year reviewed accounts, year-end audited accounts and an annual report;
- the Board ensures the annual report includes relevant information about the operations of the Company during the year, changes in the state of affairs and details of future developments;
- shareholders are advised in writing of key issues affecting the Company;
- any proposed major changes in the Company's affairs are submitted to a vote of shareholders, as required by the Corporations Act 2001;
- the Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Company's strategies and goals. All shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Company; and
- the external auditor is required to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

The Board reviews this policy and compliance with it on an ongoing basis.

(a) Continuous Disclosure

The Company has in place a continuous disclosure policy, a copy of which is provided to all Company officers and employees who may from time to time be in the possession of undisclosed information that may be material to the price or value of the Company's securities.

The continuous disclosure policy aims to ensure timely compliance with the Company's continuous disclosure obligations under the Corporations Act 2001 (Cth) and ASX Listing Rules and ensures officers and employees of the Company understand these obligations.

The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairperson, who in consultation with the Board (where practicable) and any other appropriate personnel, will consider the information and whether disclosure is required and prepare an appropriate announcement.

At least once in every 12 month period, the Board will review the Company's compliance with this continuous disclosure policy and update it from time to time, if necessary.

ASX PRINCIPLES COMPLIANCE STATEMENT

Pursuant to the ASX Listing Rules, the Company advises that it does not comply with the following Corporate Governance Principles and Recommendations, issued by the ASX Corporate Governance Council. Reasons for the Company's non-compliance are detailed below.

Recommendation 2.1

A majority of the Board should be independent directors

Recommendation 4.2

The audit and risk management committee should be structured so that it:

- *consists of a majority of independent directors*
- *is chaired by an independent chair, who is not chair of the Board*
- *has at least three members*

Recommendation 8.2

The remuneration and nomination committee should be structured so that it:

- *consists of a majority of independent directors*
- *has at least three members*

One of the three directors is independent. In view of the size of the Company and the nature of its activities, the Board considers that the current Board structure is a cost effective and practical means of directing and managing the Company.

While the ASX Principles recommend an ideal structure for the audit and risk management and remuneration and nomination committees, they recognise that for smaller Boards it may not be possible to implement such a structure.

Given the size, scale and nature of the Company's business, the Board does not consider the non-compliance with these ASX Principles to be materially detrimental to the Company.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	31 December 2013 $	31 December 2012 Restated $	1 January 2012 Restated[1] $
Assets				
Cash and cash equivalents	19a	258,484	11,249	1,400,137
Asset disposal advance consideration		-	296,949	-
Other receivables	17	15,566	13,193	37,663
Assets held for sale		-	858,162	-
Prepayments	18	44,895	13,532	27,624
Total current assets		318,945	1,193,085	1,465,424
Exploration and evaluation expenditure		-	-	1,897,283
Property, plant and equipment	15	16,360	22,101	25,125
Other receivables	17	15,000	18,333	18,333
Total non-current assets		31,360	40,434	1,970,741
Total assets		350,305	1,233,519	3,406,165
Liabilities				
Trade and other payables	24	69,398	70,444	84,672
Receipts in advance		-	296,949	-
Employee benefits	22	8,302	106,952	-
Total current liabilities		77,700	474,345	84,672
Total liabilities		77,700	474,345	84,672
Net assets		272,605	759,174	3,321,493
Equity				
Share capital	20	41,586,203	41,092,627	41,092,627
Reserves	20	147,054	279,149	415,549
Retained losses		(41,460,652)	(40,612,602)	(38,186,683)
Total equity attributable to equity holders of the Company		272,605	759,174	3,321,493

[1] With effect from 1 January 2013, the directors of Xstate Resources Limited made a voluntary change in accounting for exploration and evaluation expenditure from capitalisation to expense when incurred. As such, in accordance with AASB 101.39, a third Consolidated Statement of Financial Position and notes to the restated amounts has been presented. The standard requires that the change in accounting policy is shown from the first day of the prior year to which the change is made, being 1 January 2012.

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 $	2012 Restated $
Other income	9	59,128	29,000
Administrative expenses	11	(624,952)	(747,819)
Other expenses	12	(320,235)	(204,948)
Exploration expenditure – current year		(484,208)	(621,755)
Write down of held for sale asset		-	(1,039,120)
Results from operating activities		(1,370,267)	(2,584,642)
Finance income	13	1,269	22,323
Net finance income		1,269	22,323
Loss before income tax		(1,368,998)	(2,562,319)
Income tax benefit	14	-	-
Loss from continuing operations		(1,368,998)	(2,562,319)
Loss for the year		(1,368,998)	(2,562,319)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss		-	-
Total items that will not be reclassified subsequently to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss		-	-
Total items that may be reclassified subsequently to profit or loss		-	-
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive loss for the year		(1,368,998)	(2,562,319)
Loss attributable to owners of the Company		(1,368,998)	(2,562,319)
Total comprehensive loss attributable to owners of the Company		(1,368,998)	(2,562,319)
Loss per share			
Basic and diluted (cents per share)	21	(1.17)	(2.54)

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Attributable to equity holders of the Company			
	Share capital $	Equity-based benefits reserve $	Accumulated losses $	Total $
Balance at 1 January 2013	41,092,627	279,149	(40,612,602)	759,174
Total comprehensive expense for the period				
Loss for the year	-	-	(1,368,998)	(1,368,998)
Other comprehensive income				
Total other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(1,368,998)	(1,368,998)
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Placement of 10 million shares at 1.686 cents each	168,626	-	-	168,626
Placement of 1 million shares at 1.686 cents each as consideration for acquisition of assets	16,862	-	-	16,862
Issue of 7,009,804 shares at 1.7 cents each in lieu of deferred director fees	119,167	-	-	119,167
Issue of 1,911,765 shares at 1.76 cents each in lieu of deferred director fees	33,647	-	-	33,647

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Share capital $	Equity-based benefits reserve $	Accumulated losses $	Total $
		Attributable to equity holders of the Company			
Transactions with owners, recorded directly in equity (continued)					
Contributions by and distributions to owners (continued)					
Issue of 1,274,510 shares at 1.79 cents each in lieu of deferred director fees		22,814	-	-	22,814
Issue of 1 million shares at 2.2 cents each as consideration for consultancy services		22,000	-	-	22,000
Placement of 6,250,000 shares at 0.8 cents each		50,000	-	-	50,000
Placement of 11 million shares at 3 cents each		330,000	-	-	330,000
Capital raising costs		(27,741)	-	-	(27,741)
24,179,932 30 June 2013 options lapsed		(241,799)	-	241,799	-
Share-based payment transactions	23	-	(132,095)	279,149	147,054
Total contributions by and distributions to owners		493,576	(132,095)	520,948	882,429
Total changes in ownership interests in subsidiaries		-	-	-	-
Total transactions with owners		493,576	(132,095)	520,948	882,429
Balance at 31 December 2013		41,586,203	147,054	(41,460,652)	272,605

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Attributable to equity holders of the Company			
	Share capital $	Equity-based benefits reserve $	Accumulated losses $	Total $
Balance at 1 January 2012	41,092,627	415,549	(31,467,822)	10,040,354
Adjustments arising from change in accounting policy	-	-	(6,718,861)	(6,718,861)
Balance at 1 January 2012, restated	41,092,627	415,549	(38,186,683)	3,321,493
Total comprehensive loss for the year				
Loss for the year	-	-	(2,562,319)	(2,562,319)
Other comprehensive loss for the year				
Total other comprehensive loss for the year	-	-	-	-
Total comprehensive income / (loss) for the year	-	-	(2,562,319)	(2,562,319)
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 31 December 2012	41,092,627	279,149	(40,612,602)	759,174

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 $	2012 Restated $
Cash flows from operating activities			
Receipts from customers		-	30,896
Cash paid to suppliers and employees		(714,750)	(818,881)
Payments for exploration, evaluation and development		(467,345)	(628,123)
Income taxes received		-	8,173
Net cash used in operating activities	19b	(1,182,095)	(1,407,935)
Cash flows from investing activities			
Interest received		1,269	23,038
Proceeds from available for sale asset		903,466	-
Payments for property, plant and equipment		(1,760)	(4,525)
Net cash from investing activities		902,975	18,513
Cash flows from financing activities			
Proceeds from issue of shares and options		548,626	-
Capital raising costs		(39,841)	-
Net cash from financing activities		508,785	-
Net decrease in cash and cash equivalents		229,665	(1,389,422)
Cash and cash equivalents at 1 January		11,249	1,400,137
Effect of exchange rate fluctuations on cash held		17,570	534
Cash and cash equivalents at 31 December	19a	258,484	11,249

The notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. REPORTING ENTITY

Xstate Resources Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Level 2, 55 Carrington Street, Nedlands, Western Australia, 6009. The consolidated financial statements of the Company as at and for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group Entities"). The Group was primarily involved in oil and gas exploration in California, USA.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS's) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of the Directors on 12th March 2014.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except share-based payments which are measured at fair value.

(c) Going concern

The 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 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
- Borrowings from related or third parties
- Farming out assets to reduce expenditure obligations

The Group acknowledges that there are risks that may give rise to 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.

On 17 February 2014, the Company issued 20 million fully paid ordinary shares at 5 cents each to raise $1 million in working capital. The placement settled on 19 February 2014.

2. BASIS OF PREPARATION (continued)

(d) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

(e) Changes in accounting policy and disclosure

Presentation of transaction recognised in other comprehensive income
From 1 January 2013 the Group applied amendments to AASB 101 *Presentation of Financial Statements outlined in AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income.* The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and require the Group to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. These changes are included in the statement of profit or loss and other comprehensive income.

Exploration and evaluation assets
On 23 December 2013 the Board resolved to change the exploration and development accounting policy with effect from 1 January 2013 such that current and future exploration is expensed through profit and loss. Comparative figures have been represented to reflect the change in accounting policy (see note 8).

AASB10 *Consolidated Financial Statements,* AASB 11 *Joint Arrangements,* AASB 12 *Disclosure of Interests in Other Entities (2011)*

AASB 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees (see Note 3(a)(i)).

Under AASB 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore subsequent accounting.

- The Group's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Group's interest in those assets and liabilities.

- The Group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity accounted.

AASB 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries in comparison with the existing disclosures. AASB 12 requires the disclosure of information about the nature, risks and financial effects of these interests.

These changes do not impact the financial statements.

AASB13 *Fair Value Measurement (2011)*

AASB 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout Australian Accounting Standards. Subject to limited exceptions, AASB 13 is applied when fair value measurements or disclosures are required or permitted by other AASBs. The Group is currently reviewing its methodologies in determining fair values (see Note 5). These changes do not impact the financial statements.

2. BASIS OF PREPARATION (continued)

(e) Changes in accounting policy and disclosure (continued)

AASB 119 Employee Benefits (2011)

AASB 119 (2011) changes the definition of short-term and long-term employee benefits to clarify the distinction between the two. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The directors do not anticipate that the amendments to AASB 119 will have a significant effect on the Group's consolidated financial statements. These changes do not impact the financial statements.

(f) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described as follows:

Critical judgements

(i) Going concern

A key assumption underlying the preparation of the financial statements is that the entity will continue as a going concern. An entity is a going concern when it is considered to be able to pay its debts as and when they are due, and to continue in operation without any intention or necessity to liquidate or otherwise wind up its operations. A significant amount of judgement has been required in assessing whether the entity is a going concern as set out in note 2(c).

Estimates and assumptions

(ii) Exploration and evaluation assets

Following the change in accounting policy (refer note 8), exploration, evaluation and development expenditure is expensed to profit and loss when incurred.

(iii) Recognition of tax losses

In accordance with the Group's accounting policies for deferred taxes (refer note 3(k)), a deferred tax asset is recognised for unused tax losses only if it is probable that future taxable profits will be available to utilise those losses. Determination of future taxable profits requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively the sale of respective areas of interest will be achieved. This includes estimates and judgements about commodity prices, exchange rates, future capital requirements, future operational performance and the timing of estimated cash flows. Changes in these estimates and assumptions could impact on the amount and probability of estimated taxable profits and accordingly the recoverability of deferred tax assets. The Group currently does not recognise deferred tax assets.

(iv) Impairment of non-financial assets

The consolidated entity assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment (see note 3(f). If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions. The carrying amount of such assets is set out in note 15.

2. BASIS OF PREPARATION (continued)

(f) Use of estimates and judgements (continued)

Estimates and assumptions

(v) Share-based payments

As set out in note 23, the consolidated entity measures the cost of equity-settled transactions with employees and consultants by reference to the value of the equity instruments at the date on which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

In the Company's financial statements, investments in subsidiaries are carried at cost.

(ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. Income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is reclassified to profit or loss as part of the gain or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: cash and other receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

Accounting for finance income and expense is disclosed in note 3(j).

(ii) Non-derivative financial liabilities

The Group initially recognises financial liabilities (including liabilities designated at fair value) through profit and loss. The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

The Group has the following non-derivative financial liabilities: trade and other payables.

(iii) Share capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Depreciation

Depreciation is calculated to write off the cost of property, plant and equipment less their estimated residual values using the straight-line basis over the estimated useful lives.

Depreciation is recognised in profit or loss.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

	Method	2013	2012
Office equipment	Straight line	20%	20%
Computer equipment	Straight line	20%	20%
Fixtures & Fittings	Straight line	20%	20%

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) Exploration and evaluation

Exploration for and evaluation of mineral resources is the search for mineral resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. Accordingly, exploration and evaluation expenditures are those expenditures incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Accounting for exploration and evaluation expenditures is assessed separately for each 'area of interest'. An 'area of interest' is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Expenditure incurred on activities that precede exploration and evaluation of mineral resources, including all expenditure incurred prior to securing legal rights to explore an area, is expensed to profit and loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(g) Employee benefits

(i) Wages, salaries and annual leave
Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(iii) Share-based payment transactions
The share option programme allows Group employees to receive rights to acquire shares of the Company. The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the options granted is measured using the Black-Scholes formula; taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

(h) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the true value of money and the risks specific to the liability.

(i) Revenue recognition

Rental income
Rental income from office leases is recognised on a straight line basis over the term of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in the consolidated statement of profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and impairment losses recognised on financial assets. All borrowing costs are recognised in the consolidated statement of profit or loss using the effective interest method.

(k) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted by reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are recognised with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises share options granted to employees.

(n) Segment reporting

Determination and presentation of operating segments
An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's CEO (or equivalent) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO (or equivalent) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

(o) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretation are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(a) AASB9 *Financial Instruments (2010),* AASB 9 *Financial Instruments (2009)*

AASB 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project that may result in limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets and hedge accounting.

AASB 9 (2010 and 2009) is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The Group does not plan to adopt this standard early as the extent of the impact has not been determined.

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5. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Other receivables

Other receivables are short-term in nature. As a result, the fair value of these instruments is considered to approximate its carrying value.

Non-derivative financial liabilities

Trade and other payables are short term in nature. As a result, the fair value of these instruments is considered to approximate its carrying value.

Share-based payment transactions

The fair value of stock options is based on market value, if available. If market value is not available, then the fair value of stock options is measured using the Black and Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

6. FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk Management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established an Audit and Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit and Risk Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. For the Company it arises from receivables due from subsidiaries.

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2013	2012
	$	$
Other receivables	30,566	31,526
Cash and cash equivalents	258,484	11,249
	289,050	42,775

None of the Group's receivables are past due.

The Group undertook onshore exploration and evaluation activities in California, USA. At the balance sheet date there were no significant concentrations of credit risk.

Cash and cash equivalents
The Group limits its exposure to credit risk by only depositing with authorised banking institutions and only with counterparties that have an acceptable credit rating.

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Trade and other receivables
As the Group operates primarily in exploration activities, it does not have trade receivables and therefore is not exposed to credit risk in relation to trade receivables.

The maximum exposure to credit risk for other receivables at the reporting date by geographic region was:

	Carrying Amount	
	2013	2012
Australia	30,566	31,526

The maximum exposure to credit risk for other receivables at the reporting date by type of counterparty was:

	Carrying Amount	
	2013	2012
Authorised banking institutions and government agencies	30,566	28,193
Rental bond	-	3,333
	30,566	31,526

Management does not expect any counterparty to fail to meet its future obligations and therefore the Company and Group have not established an allowance for impairment that represents their estimate of incurred losses in respect of intercompany loans and receivables and investments.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

	Carrying amount $	Contractual cash flows $	6 months or less $
31 December 2013			
Non-derivative financial liabilities			
Trade and other payables	77,700	(77,700)	(77,700)
31 December 2012			
Non-derivative financial liabilities			
Trade and other payables	177,396	(177,396)	(177,396)

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group is exposed to currency and interest rate risk as detailed below.

Currency risk management

The Group is exposed to currency risks on exploration cash calls that are denominated in a currency other than the respective functional currencies of Group entities, which is primarily the Australian dollar (AUD). The currencies in which these transactions will primarily be denominated are AUD and USD.

The Group's exposure to foreign currency risk, expressed in Australian dollars, was as follows:

	31 December 2013		31 December 2012 Restated	
	AUD	USD	AUD	USD
Cash and cash equivalents	202,496	55,988	59,501	(48,252)
Asset disposal advance consideration	-	-	-	296,949
Trade and other receivables	30,566	-	31,526	-
Trade and other payables	(77,700)	-	(177,396)	-
Receipts in advance	-	-	-	(296,949)
Net exposure	155,362	55,988	(86,369)	(48,252)

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

Currency risk management (continued)
The following significant exchange rates applied during the year:

AUD	Average rate 2013	Average rate 2012	Reporting date spot rate 2013	Reporting date spot rate 2012
US Dollar (USD)	1.0151	1.0327	0.8873	1.0336

The Group was exposed to US dollars (USD). The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss where the Australian dollar strengthens against the respective currency.

	Impact on profit and loss and equity 2013	Impact on profit and loss and equity 2012
If AUD strengthens by 10%		
USD	(5,090)	(73,628)
If AUD weakens by 10%		
USD	6,221	89,990

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

Interest rate risk
The Group only has interest rate risk relating to its funds on deposit with banking institutions. Accordingly, the Group does not hedge its interest rate risk exposure.

Profile
At the reporting date the interest rate profile of the Group's interest bearing financial instruments was:

	Carrying amount	
	2013	2012
	$	$
Variable rate instruments		
Financial assets	258,484	308,198
	258,484	308,198

Fair value sensitivity analysis for fixed rate instruments
The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments
A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2012.

	Profit or loss	
	100bp increase	100bp decrease
	$	$
31 December 2013		
Variable rate instruments	2,584	(1,518)
Cash flow sensitivity	2,584	(1,518)
31 December 2012		
Variable rate instruments	3,081	(743)
Cash flow sensitivity	3,081	(743)

At the reporting date the Group did not hold any variable rate financial liabilities.

6. FINANCIAL RISK MANAGEMENT (continued)

(d) Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. Capital consists of ordinary shares, equity settled benefits reserve and retained losses. In order to maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. The Group's focus has been to raise sufficient funds through equity to fund exploration and evaluation activities.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

(e) Fair values of financial assets and liabilities

The fair value of the financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 Financial Instruments: Disclosures requires disclosure of the fair value measurements by level of the following fair value measurement hierarchy:

(i) Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
(ii) Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
(iii) Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The directors have determined that the carrying values of the financial assets and liabilities recorded in the financial statements approximate their fair values.

The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

7. OPERATING SEGMENTS

Information about reportable segments

The Group has identified its operating segments on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group currently operates in one operating segment being oil and gas exploration and evaluation.

Reportable segments disclosed are based on aggregating tenements where the evaluation and exploration interests are considered to form a single project. This is indicated by:

- having the same ownership structure;
- exploration being focused on the same mineral or type of mineral; and
- exploration programs targeting the tenements as a group, indicated by the use of the same exploration team shared geological data and knowledge across the tenements.

Unless otherwise stated, all amounts reported to the Board of Directors as the chief decision maker with respect to operating tenements, are determined in accordance with AASB 8 *Operating Segments.*

7. OPERATING SEGMENTS (continued)

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

	2013 $	2012 Restated $
Profit / (loss) before income tax		
Total loss for reportable segments	(484,208)	(1,663,884)
Unallocated amounts: other corporate expenses	(886,059)	(920,758)
Finance income	1,269	22,323
Consolidated loss before income tax	(1,368,998)	(2,562,319)
Assets		
Total assets for reportable segments	-	1,155,111
Other assets	350,305	78,408
Consolidated total assets	350,305	1,233,519
Liabilities		
Total liabilities for reportable segments	-	(296,949)
Other liabilities	(77,700)	(177,396)
Consolidated total liabilities	(77,700)	(474,345)

8. VOLUNTARY CHANGE OF ACCOUNTING POLICY

The consolidated financial statements have been prepared incorporating retrospective application of a voluntary change in accounting policy relating to exploration and evaluation expenditure.

The new exploration and evaluation expenditure accounting policy is to expense all exploration and evaluation expenditure, including acquisition costs and exploration expenditure, as incurred.

The previous accounting policy was that expenditure on exploration and evaluation activities in relation to areas of interest which had not reached a stage which permitted reasonable assessment of the existence or otherwise of economically recoverable reserves were capitalised as incurred.

The new accounting policy was adopted on 31 December 2013 and has been applied retrospectively. The Directors believe that the change in accounting policy will provide more relevant information and no less reliable information to users of the consolidated financial statements. Both the previous and the new accounting policy are compliant with AASB 6 Exploration for Evaluation of Minerals Resources, which permits a choice of accounting policy.

The impact of the change in accounting policy on the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flow is included in the tables on the following page.

8. VOLUNTARY CHANGE OF ACCOUNTING POLICY (continued)

This voluntary change involves restating the following balances:

	31 Dec 2012 Previous Policy $	Increase/ (Decrease) $	31 Dec 2012 (Restated) $	01 Jan 2012 Previous Policy $	Increase/ (Decrease) $	1 Jan 2012 (Restated) $
Consolidated statement of financial position (extract)						
Capitalised tenement acquisition costs	-	-	-	8,616,144	(6,718,861)	1,897,283
Net assets	759,174	-	759,174	10,040,354	(6,718,861)	3,321,493
Accumulated losses	(40,612,602)	-	(40,612,602)	(31,467,822)	(6,718,861)	(38,186,683)
Total equity	759,174	-	759,174	10,040,354	(6,718,861)	3,321,493
Consolidated comprehensive income statement (extract)						
Other expenses	199,142	5,806	204,948			
Impairment of exploration expenditure	8,386,468	(8,386,468)	-			
Write down on held for sale asset	-	1,039,120	1,039,120			
Exploration expenses	-	621,755	621,755			
Finance income	(23,249)	926	(22,323)			
Loss before income tax	(9,281,180)	6,718,861	(2,562,319)			
Income tax benefit / expense	-	-	-			
Loss for the year	(9,281,180)	6,718,861	(2,562,319)			

Basic and diluted loss per share for the prior year has also been restated.

8. VOLUNTARY CHANGE OF ACCOUNTING POLICY (continued)

This voluntary change involves restating the following balances:

	31 Dec 2012 Previous Policy $	Increase/ (Decrease) $	31 Dec 2012 (Restated) $
Consolidated statement of Cash Flows (extract)			
Payments for exploration and evaluation of expenditure	-	(628,123)	(628,123)
Cash paid to suppliers and employees	(818,868)	(13)	(818,881)
Net cash used in operating activities	(779,799)	(628,136)	(1,407,935)
Payments for exploration and evaluation expenditure capitalised	(628,136)	628,136	-
Net cash (used in) / from investing activities	(609,623)	628,136	18,513

Basic and diluted loss per share for the prior year has also been restated.

9. OTHER INCOME

	Note	2013 $	2012 $
Net foreign exchange gains		59,128	-
Office rent and amenities		-	29,000
		59,128	29,000

10. PERSONNEL EXPENSES

Wages and salaries		30,688	38,701
Directors and executives remuneration	27	439,882	486,005
Employee contributions to defined contribution plans		3,484	3,483
Employee equity-settled share based payments		9,500	-
Other associated personnel expenses		229	21
		483,783	528,210

11. ADMINISTRATIVE EXPENSES

	Note	2013 $	2012 $
Personnel expenses	10	483,783	528,210
Advertising and publicity		42,574	49,530
Communication and information services		30,310	26,569
Motor vehicle expenses		269	17
Office administration		47,024	93,678
Bank charges		1,595	1,356
Share registry and statutory fees		19,397	48,459
		624,952	747,819

12. OTHER EXPENSES

Professional fees	312,734	191,593
Depreciation and amortisation	7,501	7,549
Net foreign exchange loss	-	5,805
	320,235	204,947

13. FINANCE INCOME AND EXPENSE

Interest income on bank deposits	1,269	19,761
Other interest income	-	2,562
Finance income recognised in profit or loss	1,269	22,323

14. INCOME TAX EXPENSE

	2013 $	2012 Restated $
Current tax benefit		
Current period	(135,884)	(148,243)
Deferred tax benefit		
Origination and reversal of temporary differences	135,884	148,243
Total income tax benefit	-	-

Numerical reconciliation between tax expense and pre-tax accounting loss

	2013 $	2012 Restated $
Loss for the period	(1,368,998)	(2,562,319)
Total income tax benefit	-	-
Loss excluding income tax	(1,368,998)	(2,562,319)
Income tax using the Company's domestic tax rate of 30% (2012: 30%)	(410,700)	(768,696)
Non-deductible expenses	283,483	593,925
Current year tax losses not brought to account	135,884	185,013
Change in unrecognised temporary differences	(8,667)	(10,242)
	-	-
Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	1,148,112	654,967
Potential tax benefit at 30% (2012: 30%)	344,434	196,490

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits of $344,434 (2012 restated: $196,490) attributable to tax losses have not been brought to account because the directors do not believe it is appropriate to regard realisation of the future income tax benefits as probable.

14. INCOME TAX EXPENSE (continued)

Numerical reconciliation between tax expense and pre-tax accounting loss (continued)

The benefit of these tax losses will only be obtained if:

i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

ii) the conditions for deductibility imposed by tax legislation continue to be complied with;

iii) no changes in tax legislation adversely affect the Company in realising the benefit; and

iv) satisfaction of either the continuity of ownership or the same business test.

15. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings $	Computer Equipment $	Total $
Gross carrying amount			
Balance at 1 January 2012	7,496	25,042	32,538
Additions	-	4,525	4,525
Balance at 31 December 2012	7,496	29,567	37,063
Balance at 1 January 2013	7,496	29,567	37,063
Additions	-	1,760	1,760
Balance at 31 December 2013	7,496	31,327	38,823
Depreciation and impairment losses			
Balance at 1 January 2012	1,556	5,857	7,413
Depreciation for the year	1,499	6,050	7,549
Balance at 31 December 2012	3,055	11,907	14,962
Balance at 1 January 2013	3,055	11,907	14,962
Depreciation for the year	1,499	6,002	7,501
Balance at 31 December 2013	4,554	17,909	22,463
Carrying amounts			
Balance at 31 December 2012	4,441	17,660	22,101
Balance at 31 December 2013	2,942	13,418	16,360

16. DEFERRED TAX ASSETS AND LIABILITIES

(a) Unrecognised deferred tax assets and liabilities

Unrecognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
	$	$	$	$	$	$
Black hole deductible costs	18,724	32,099	-	-	18,724	32,099
Trade and other payables	6,300	7,200	-	-	6,300	7,200
Employee benefits	2,491	3,686	-	-	2,491	3,686
Carry forward tax losses	344,434	196,490	-	-	344,434	196,490
	371,949	239,475	-	-	371,949	239,475

The Group does not recognise deferred tax assets as it is not probable that sufficient taxable amounts will be available in future periods against which the DTA's could be offset.

17. OTHER RECEIVABLES

	2013 $	2012 $
ANZ security deposit	15,000	15,000
Rental bond	-	3,333
Other receivables	-	-
GST and PAYG receivable	15,566	13,193
	30,566	31,526
Current	15,566	13,193
Non-current	15,000	18,333
	30,566	31,526

18. PREPAYMENTS

Insurance	5,320	6,501
Australian Securities Exchange	5,951	-
Rent and outgoings	4,200	-
Subscriptions and conference registrations	2,174	7,031
Exploration cash call	27,250	-
	44,895	13,532

19. CASH AND CASH EQUIVALENTS

(a) Reconciliation of cash and cash equivalents

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 26.

	2013 $	2012 $
Cash and cash equivalents in the statement of cash flows	258,484	11,249

The perceived credit risk is low as cash and cash equivalents are with authorised deposit taking institutions.

(b) Reconciliation of cash flows from operating activities

	Notes	2013 $	2012 Restated $
Cash flows from operating activities			
Loss for the period		(1,368,998)	(2,562,319)
Adjustments for:			
Net finance income	13	(1,269)	(19,761)
Depreciation	15	7,501	7,549
Equity-settled share based payments		346,975	-
Write down of held for sale asset		-	1,039,120
Net (gain) / loss on foreign exchange translations		(62,873)	(534)
		(1,078,664)	(1,535,945)
Change in other receivables		960	24,174
Change in trade and other payables		25,622	(17,208)
Change in prepayments	18	(31,363)	14,092
Change in provisions and employee benefits	22	(98,650)	106,952
Net cash used in operating activities		(1,182,095)	(1,407,935)

20. CAPITAL AND RESERVES

(a) Share capital issued for cash

		Ordinary shares			
		Number		Amount	
		2013 shares	2012 shares	2013 $	2012 $
On issue at 1 January		100,881,350	100,881,350	40,850,828	40,850,828
21-Mar-13	Placement of 10 million shares at 1.686 cents each	10,000,000	-	168,626	-
21-Mar-13	Placement of 1 million shares at 1.686 cents each as consideration for acquisition of assets	1,000,000	-	16,862	-
31-May-13	Issue of 7,009,804 shares at 1.7 cents each in lieu of deferred director fees	7,009,804	-	119,167	-
02-Sep-13	Placement of 6,250,000 shares at 0.8 cents each	6,250,000	-	50,000	-
30-Sep-13	Issue of 1,911,765 shares at 1.76 cents each in lieu of deferred director fees	1,911,765	-	33,647	-
25-Oct-13	Issue of 1 million shares at 2.2 cents each as consideration for consultancy services	1,000,000	-	22,000	-
29-Nov-13	Issue of 1,274,510 shares at 1.79 cents each in lieu of deferred director fees	1,274,510	-	22,814	-
12-Dec-13	Placement of 11 million shares at 3 cents each	11,000,000	-	330,000	-
	Capital raising costs	-	-	(27,741)	-
On issue at 31 December		140,327,429	100,881,350	41,586,203	40,850,828

20. CAPITAL AND RESERVES (continued)

(b) Share options issued for cash

		Options issued for cash			
		Number		Amount	
		2013 Options	2012 Options	2013 $	2012 $
On issue at 1 January		24,179,932	24,179,932	241,799	241,799
30-Jun-13	Lapsed options issued on 8 July 2010	(24,179,932)	-	(241,799)	-
On issue at 31 December		-	24,179,932	-	241,799
Share capital and options issued for cash at 31 December				41,586,203	41,092,627

20. CAPITAL AND RESERVES (continued)

(c) Share options issued through equity benefit reserve

		Options issued through equity benefit reserve Number		Amount	
		2013 Options	2012 Options	2013 $	2012 $
On issue at 1 January		24,324,796	24,658,130	279,149	415,549
30-Apr-12	Lapsed options issued on 30 May 2007	-	(333,334)	-	(136,400)
21-Jan-13	Lapsed options issued on 21 January 2012	(66,667)	-	(4,149)	-
31-May-13	Issue of 6,500,000 4 cent options as per employee option plan	6,500,000	-	19,500	-
31-May-13	Issue of 6,500,000 6 cent options as per employee option plan	6,500,000	-	13,650	-
31-May-13	Issue of 6,500,000 8 cent options as per employee option plan	6,500,000	-	10,400	-
31-May-13	Lapsed free-attaching options issued on 8 July 2010	(3,750,000)	-	-	-
31-May-13	Lapsed options issued on 5 November 2010	(15,008,129)	-	-	-
30-Jun-13	Lapsed options issued on 30 September 2010	(5,500,000)	-	(275,000)	-
25-Oct-13	Issue of 2 million 5 cent options in consideration for consultancy fees	2,000,000	-	39,000	-
04-Nov-13	Issue of 500,000 5 cent options as employee option plan	500,000	-	9,500	-
On issue at 31 December		22,000,000	24,324,796	92,050	279,149

20. CAPITAL AND RESERVES (continued)

(d) Issuance of ordinary shares

All issued shares are fully paid.

(e) Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Option holders cannot participate in any new share issues by the Company without exercising their options.

In the event of a winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

All issued shares are fully paid.

The Company has also issued share options (see note 23).

(f) 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 reversed through profit and loss should certain vesting conditions not be met.

21. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share at 31 December 2013 was based on the loss attributable to ordinary shareholders of $1,368,998 (2012 restated: $2,562,319) and a weighted average number of ordinary shares outstanding of 117,092,887 (2012: 100,881,350) calculated as follows:

Loss attributable to ordinary shareholders

	2013 $	2012 Restated $
Loss for the period	(1,368,998)	(2,562,319)

Weighted average number of ordinary shares (basic)

	2013 Number	2012 Number
Issued ordinary shares at 1 January	100,881,350	100,881,350
Effect of shares issued during the period	16,211,537	-
	117,092,887	100,881,350

21. LOSS PER SHARE (continued)

(b) Diluted loss per share

The Company does not have any potential ordinary shares whose conversion to ordinary shares would have a dilutive effect on basic loss per share and as such diluted loss per share is equal to basic loss per share.

In accordance with AASB 133 'Earnings per Share' share options issued as share based payments have been excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

22. EMPLOYEE BENEFITS

	2013 $	2012 $
Current		
Liability for superannuation	3,344	12,286
Accrued directors fees to be paid as cash	4,958	94,666
	8,302	106,952

23. SHARE-BASED PAYMENT PLANS

(a) Description of the share-based payment arrangements

At 31 December 2013 the Group has the following share-based payment arrangements:

		$
(i)	Shares issued in lieu of deferred director fees	177,921
(ii)	Shares issued in lieu of consultancy fees	22,000
(iii)	Shares to be issued in lieu of deferred director fees	55,004
(iv)	Options issued to directors, employees and consultants	92,050

(i) Shares issued in lieu of deferred director fees

At the AGM on 31 May 2013, shareholders approved the issue of up to 14,656,883 shares to Gary Jeffery under the Share Plan to be issued between 1 June 2013 and 31 May 2014 representing 52% of fees earned. Gary Jeffery resigned from the board on 6 November 2013.

	Tranche	$	No of Plan Shares	Date of issue
Fees deferred as at 31 May 2013	1	119,167	7,009,804	31-May-13
Fees deferred quarter ended 31 August 2013	2	33,647	1,911,765	30-Sep-13
Fees deferred as at 6 November 2013	3	22,813	1,274,510	29-Nov-13
Adjustment to fair value of share based payment for director fees		2,294	-	
Number of shares issued in lieu of deferred fees			10,196,079	

23. SHARE-BASED PAYMENT PLANS (continued)

(a) Description of the share-based payment arrangements (continued)

(ii) Shares issued in lieu of consultancy fees

On 25 October 2013 Directors approved the issue of 1,000,000 2.2 cents shares in satisfaction of fees owing for consultant services. This decision was ratified by shareholders at the General Meeting held on 31 January 2014.

(iii) Shares to be issued in lieu of accrued director fees

On 3 December 2013 Directors approved the issue of 1,571,547 shares in satisfaction of 50% of deferred director fees. This decision was ratified by shareholders at the General Meeting held on 31 January 2014. The share price at the reporting date was 3.5 cents per share and accounting standards require the amount owing at 31 December 2013 to reflect the fair value of the shares subsequently granted.

	50% accrued at 31 December 2013 $	Number of Shares issued approved by shareholders	Fair value of shares at 31 December 2013 3.5 cents each $
Executive directors			
Paul Cartwright	16,667	579,358	20,277
Non-executive directors			
David McArthur	4,958	301,061	10,537
Chris Hodge	2,212	83,904	2,937
Senior executives			
David McArthur	10,000	607,224	21,253
	33,837	1,571,547	55,004

(iv) Options issued to directors, employees and consultants

At the AGM on 31 May 2013, shareholders approved the adoption of an incentive option plan to attract and retain the services of directors and consultants of a high calibre.

On 31 May 2013 shareholders approved the issue of 19,500,000 options to the directors with a calculated value of between 0.40 and 0.64 cents each. The fair value of each tranche of options is recognised as director and senior executives' remuneration as all options vested on their grant date.

On 24 October 2013 the board approved the issue of 2 million options in lieu of consultancy fees with a calculated value of 1.95 cents each. The fair value of the options is recognised in consultancy fees as all options vested on the grant date.

On 4 November 2013 the board approved the issue of 500,000 options to an employee, pursuant to the Company's Employee Option Scheme, with a calculated value of 1.9 cents each.

23. SHARE-BASED PAYMENT PLANS (continued)

(a) Description of the share-based payment arrangements (continued)

Equity-settled share option programme
The board established an Employee Option Plan whereby the board may offer free options to persons ("Eligible Persons") who are:

- full time or part time employees (including a person engaged by the Group under a consultancy agreement); or
- directors' of the Group based on a number of criteria including contribution to the Group, period of employment, potential contribution to the Group in the future and other factors the board considers relevant.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is converted into one ordinary share within fourteen days after the receipt of a properly executed notice of exercise and application monies. The Group will issue to the option holder, the number of shares specified in that notice. The Group will apply for official quotation of all shares issued and allotted pursuant to the exercise of the options.

Options may not be transferred other than to an associate of the holder.

The fair value of services received for share options granted is based on the fair value of options granted, measured using the Black-Scholes formula.

(b) Terms and conditions of share-option programme

The terms and conditions relating to the grant of existing share options are as follows:

Tranche	Grant date	Number of instruments	Vesting Conditions	Expiry date	Contractual life of options
1	31-May-13	6,500,000	Vested upon granting	31-May-16	3 years
2	31-May-13	6,500,000	Vested upon granting	31-May-16	3 years
3	31-May-13	6,500,000	Vested upon granting	31-May-16	3 years
4	25-Oct-13	2,000,000	Vested upon granting	31-Dec-16	3.2 years
5	04-Nov-13	500,000	Vested upon granting	31-Dec-16	3.2 years

23. SHARE-BASED PAYMENT PLANS (continued)

(c) Inputs for measurement of grant date fair values

The fair value of services received in return for share options granted was based on the fair value of share options on the date granted, measured using the Black-Scholes options pricing model.

The expected price volatility was estimated by considering historic average share price volatility, if available, (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information and volatility within the mining industry. The inputs used in the measurement of the fair values at grant date of the share based payment plans are the following:

Fair value of share options and assumptions	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
Fair value at grant date	0.30 cents	0.21 cents	0.16 cents	0.195 cents	0.19 cents
Share price	1.2 cents	1.2 cents	1.2 cents	3 cents	3 cents
Exercise price	4 cents	6 cents	8 cents	5 cents	5 cents
Expected volatility	80.38%	80.38%	80.38%	119.46%	116.96%
Option life	3 years	3 years	3 years	3.2 years	3.2 years
Vesting period	- years	- years	- years	- years	- years
Risk free rate	2.52%	2.52%	2.52%	2.71%	2.71%

(d) Disclosure of share option programme

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2013	Number of options 2013	Weighted average exercise price 2012	Number of Options 2012
Outstanding at 1 January	$0.24	66,667	$1.64	400,001
Granted during the period	$0.06	22,000,000	-	-
Expired during period	$0.24	(66,667)	$1.92	(333,334)
Outstanding at 31 December	$0.06	22,000,000	$0.24	66,667
Exercisable at 31 December	$0.06	22,000,000	$0.24	66,667

The options outstanding at 31 December 2013 have an exercise price between 4 and 8 cents (2012: 24 cents) and a weighted average contractual life of 2.48 years (2012: 0.06 years).

22,000,000 options were granted during the year (2012: no options granted).

66,667 options expired during the year (2012: 333,334 options expired).

23. SHARE-BASED PAYMENT PLANS (continued)

(e) Amount expensed to profit and loss

The amount expensed to profit or loss based on the number and fair values of share options or shares issued in lieu of director fees are as follows:

	2013 $	2012 $
Director and senior executives' remuneration	209,182	-
Personnel expenses	9,500	-
Consultancy fees	39,000	-
	257,682	-

24. TRADE AND OTHER PAYABLES

	2013 $	2012 $
Current		
Trade payables	30,655	24,444
Non-trade payables and accrued expenses	38,743	46,000
	69,398	70,444

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 6.

25. COMMITMENTS

	2013 $	2012 $
Office rent		
Less than one year	12,600	10,360

26. CONTINGENCIES

The Group has no contingent assets or liabilities.

27. RELATED PARTIES

(a) Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see note 10) is as follows:

	2013 $	2012 $
Short term employee benefits	221,837	476,499
Post-employment benefits	8,864	9,506
Share-based payments	209,182	-
	439,883	486,005

(b) Individual directors and executives compensation

Information regarding individual directors' and executives' compensation and equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

(c) Key management personnel and director transactions

A number of key management personnel and directors, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities (as detailed below) transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might be reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

27. RELATED PARTIES (continued)

(c) Key management personnel and director transactions (continued)

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

			Transactions value year ended 31 December		Balance outstanding as at 31 December	
			2013	2012	2013	2012
		Note	$	$	$	$
Key management person	*Transaction*					
David Whitby	Consulting fees	(i)	-	36,000	-	-
Gary Jeffery	Office rent	(ii)	5,000	6,000	-	-
David McArthur	Management fees	(iii)	25,000	-	5,500	-
Total and current liabilities					5,500	-

(i) During the year the Group paid $nil (2012:$36,000) to Mr Whitby representing additional consulting services over and above his duties as non-executive Chairperson. This amount has been disclosed in the remuneration report as part of Mr Whitby's total remuneration package.

(ii) During the year, Bombora Pty Ltd, a private company associated with Mr Jeffery, sublet office space from Xstate Resources Limited between January 2013 to October 2013 (2012: January 2012 to December 2012).

(iii) During the year the Group paid $25,000 (2012: $nil) to Broadway Management (WA) Pty Ltd, a company associated with Mr McArthur, representing management fees for the period 3 September 2013 to 31 December 2013.

(d) Other related parties

Contributions to superannuation funds on behalf of employees are disclosed in note 10.

27. RELATED PARTIES (continued)

(e) Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in Xstate Resources Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 January 2013	Granted as compensation	* Other changes	Exercised	Held at 31 December 2013	Vested during the year	Vested and exercisable at 31 December 2013
Directors							
Gary Jeffery [(1)]	2,966,400	10,500,000	(13,466,400)	-	-	-	-
Ross Kestel [(2)]	-	2,250,000	(2,250,000)	-	-	-	-
Andrew Childs [(3)]	-	4,500,000	(4,500,000)	-	-	-	-
David McArthur [(4)]	-	-	2,250,000	-	2,250,000	2,250,000	2,250,000

	Held at 1 January 2012	Granted as compensation	* Other changes	Exercised	* Held at 31 December 2012	Vested during the year	Vested and exercisable at 31 December 2012
Directors							
Gary Jeffery [(1)]	2,966,400	-	-	-	2,966,400	-	2,966,400

* Other changes represent options that expired or on date of appointment or resignation

(1) Resigned 6 November 2013
(2) Resigned 3 September 2013
(3) Appointed 11 February 2013 and resigned 12 November 2013
(4) Appointed 3 September 2013

27. RELATED PARTIES (continued)

(f) Movements in shares

The movement during the reporting period in the number of ordinary shares in Xstate Resources Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 January 2013	Purchases	* Other changes	Received on exercise of options	Sales	Held at 31 December 2013
Directors						
Gary Jeffery [1]	2,336,895	-	(2,336,895)	-	-	-
Andrew Childs [2]	-	1,711,746	(1,711,746)	-	-	-
David McArthur [3]	-	298,382	5,828,830	-	-	6,127,212
Paul Cartwright [4]	-	-	7,455,000	-	-	7,455,000
Chris Hodge	-	-	1,359,206	-	-	1,359,206
	** Held at 1 January 2012	Purchases	* Other changes	Received on exercise of options	Sales	** Held at 31 December 2012
Directors						
David Whitby [1]	185,000	-	(185,000)	-	-	-
Gary Jeffery	2,336,895	-	-	-	-	2,336.895

* Other changes represent shares held on date of appointment or resignation or issued in lieu of director fees (see note 23)

[1] Resigned 6 November 2013
[2] Appointed 11 February 2012 and resigned 12 November 2013
[3] Appointed 3 September 2013
[4] Appointed 24 October 2013
[5] Appointed 12 November 2013

8,921,569 shares were issued to key management personnel during the reporting period in lieu of director fees in 2013 (2012: nil).

28. GROUP ENTITIES

Name	Place of incorporation	Financial Year end	2013 %	2012 %
Parent entity				
Xstate Resources Limited	Australia	31 December		
Subsidiary				
Xstate Mediterranean Pty Ltd	Australia	31 December	100	100

29. AUDITORS' REMUNERATION

	2013 $	2012 $
KPMG Australia		
Audit and other assurance services		
Audit and review of financial reports	32,228	36,324
Taxation services		
Taxation compliance services	12,000	17,750
Total remuneration of KPMG Australia	44,228	54,074
TOTAL AUDITORS' REMUNERATION	44,228	54,074

30. PARENT COMPANY DISCLOSURES

As at, and throughout the financial year ended 31 December 2013, the parent entity of the Group was Xstate Resources Limited.

	2013 $	2012 Restated $
Result of the parent entity		
Loss for the period	(1,368,998)	(763,953)
Other comprehensive income	-	-
Total comprehensive income for the period	(1,368,998)	(763,953)
Financial position of parent entity at year end		
Current assets	318,945	334,923
Total assets	350,305	936,570
Current liabilities	77,700	177,396
Total liabilities	77,700	177,396
Total equity of the parent entity comprising of:		
Share capital	41,586,203	41,092,627
Equity-settled benefits reserve	147,054	279,149
Accumulated losses	(41,460,652)	(40,612,602)
Total equity	272,605	759,174
Commitments		
Office rent		
Less than one year	12,600	10,360

31. SUBSEQUENT EVENTS

On 31 January 2014, shareholders approved the following:

- Ratification of the previous issue of 18,250,000 shares;
- The issue of 16,500,000 options to Directors;
- Directors to be issued shares in satisfaction of director fees;
- The acquisition of 75.9% of the issued shares of Bombora Energy Pty Ltd for the issue of 12,892,084 Xstate shares.

On 17 February 2014, the Company issued 20 million fully paid ordinary shares at 5 cents each to raise $1 million in working capital. The placement settled on 19 February 2014.

On completion of the above, the Company held 160,327,429 ordinary shares and 22 million options.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

DIRECTORS' DECLARATION

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

(a) the consolidated financial statements and notes, and the Remuneration report set out in section 4 in the Directors' Report, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 31 December 2013.

3 The directors draw attention to note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Perth this 12th day of March 2014.

D McArthur

DAVID MCARTHUR
Director

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

Report on the financial report

We have audited the accompanying financial report of Xstate Resources Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2013, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 31 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 year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in section 4 of the directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Xstate Resources Limited for the year ended 31 December 2013, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Grant Robinson

Grant Robinson
Partner

Perth

12 March 2014

SECURITIES EXCHANGE INFORMATION

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below.

1. SHAREHOLDER INFORMATION

(a) Distribution of fully paid ordinary shares at 28 February 2014

Category			Number of Shareholders	Shares held
1	-	1,000	718	84,625
1,001	-	5,000	109	304,690
5,001	-	10,000	79	655,152
10,001	-	100,000	269	11,271,023
100,001	and	over	220	162,475,569
			1,395	174,791,059

(b) Distribution of options at 28 February 2014

Category			Number of Optionholders	Options held
100,001	and	over	9	39,000,000

(c) Marketable Parcel

The number of shareholders holding less than a marketable parcel of ordinary shares is 873.

(d) Voting rights

Ordinary shares
There are no restrictions on voting rights attached to the ordinary shares. On a show of hands every member present in person shall have one vote and upon a poll, every member present or by proxy shall have one vote for every share held.

Options
There are no voting rights attached to the options.

1. SHAREHOLDER INFORMATION (continued)

(d) Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Name	Ordinary shares Number of Shares
Bond Street Custodians Limited <PNCORK – D00089 A/C>	12,532,974
Citicorp Nominees Pty Ltd	9,777,852

(e) Unlisted 31 December 2015 Options

There are 17,000,000 options held by 4 holders on issue that are exercisable between 6 and 10 cents on or before 31 December 2015.

(f) Unlisted 31 May 2016 Options

There are 19,500,000 options held by 3 holders on issue that are exercisable between 4 and 8 cents on or before 31 May 2016.

(g) Unlisted 31 December 2016 Options

There are 2,500,000 options held by 2 holders on issue that are exercisable at 5 cents on or before 31 December 2016.

(e) Shareholders

The twenty largest shareholders hold 52.3% of the total issued ordinary shares in the Company as at 28 February 2014.

2. TOP TWENTY SHAREHOLDERS AS AT 28 FEBRUARY 2014

	Name	Ordinary shares Number of Shares	Percentage of issued shares
1	Bond Street Custodians Limited <PNCORK – D00089 A/C>	12,532,974	7.17
2	Citicorp Nominees Pty Limited	9,777,852	5.59
3	Suburban Holdings Pty Ltd <The Suburban Super Fund A/C>	8,504,137	4.87
4	Mr Errol Bome & Mrs Melanie Bome <The Bome Super Fund A/C>	7,166,667	4.10
5	Mr Paul Cartwright	6,829,358	3.91
6	Mrs Kerry Martens & Mr Keith Neil Martens <Onslow Super Fund A/C>	6,026,549	3.45
7	Dasmac (WA) Pty Ltd <McArthur Family Super A/C>	4,923,066	2.82
8	Berenes Nominees Pty Ltd <Berenes Super Fund A/C>	4,750,000	2.72
9	HSBC Custody Nominees (Australia) Limited	4,709,861	2.69
10	Aviemore Capital Pty Ltd	4,200,000	2.40
11	Matilda West Pty Ltd <Team B A/C>	3,012,538	1.72
12	Bell Potter Nominees Limited <BB Nominees A/C>	3,000,000	1.72
13	Mulloway Pty Ltd <John Hartley Poynton FM A/c>	2,500,000	1.43
14	PATA Nominees Pty Ltd <The LMST Masel A/C>	2,288,095	1.31
15	Rock Doc Pty Ltd <The Begg Family A/C>	2,085,733	1.19
16	Humboldt Capital Corporation	2,083,333	1.19
17	Armada Trading Pty Ltd	2,000,000	1.14
18	Mr Raymond Ronchi	1,810,000	1.04
19	Mr David Maxwell McArthur	1,606,667	0.92
20	Vonross Nominees Pty Ltd <Vonross Family A/C>	1,600,000	0.92
		91,406,830	52.30