



ABN 96 009 217 154

3 March 2015

ASX Limited

Electronic lodgement

ASX Code: XST

NOTICE OF GENERAL MEETING

Xstate Resources Limited attaches a Notice of General Meeting dispatched to its shareholders.

On behalf of the Board of Directors



XSTATE RESOURCES LIMITED

ABN 96 009 217 154

NOTICE OF GENERAL MEETING

PROXY FORM

AND

EXPLANATORY MEMORANDUM

Date of Meeting

Tuesday 7 April 2015

Time of Meeting

11.00 am (WST)

Place of Meeting

**Level 2, 55 Carrington St
Nedlands, Perth, WA.**

YOUR BOARD DOES NOT SUPPORT ANY OF THE 6 RESOLUTIONS CONTAINED IN THIS NOTICE OF GENERAL MEETING, AND WILL BE VOTING THEIR RESPECTIVE SHAREHOLDINGS AGAINST EACH RESOLUTION.

THE DIRECTORS CONSIDER THE RESOLUTIONS ARE NOT IN THE BEST INTERESTS OF THE COMPANY OR SHAREHOLDERS AS A WHOLE AND RECOMMEND THAT SHAREHOLDERS VOTE AGAINST ALL RESOLUTIONS AT THIS MEETING.

XSTATE RESOURCES LIMITED

ABN 96 009 217 154

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of shareholders of Xstate Resources Limited ("**Company**") will be held at 11.00m (WST) on Tuesday 7 April 2015 at Level 2, 55 Carrington St, Nedlands, Perth, WA ("**the Meeting**").

The Company's Directors have determined pursuant to regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that all Shares of the Company that are quoted on ASX at 4:00pm (WST) on 5 April 2015 shall, for the purposes of determining voting entitlements at the General Meeting, be taken to be held by the persons registered as holding the Shares at that time.

An Explanatory Memorandum containing information in relation to each of the Resolutions to be put to the meeting accompanies this Notice. The Explanatory Statement and the attached Proxy Form are part of this Notice.

AGENDA

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

RESOLUTION 1: Election to the Office of Director- Raymond Ronchi

"That Mr Raymond Ronchi be appointed as a director of Xstate Resources Limited, with immediate effect."

RESOLUTION 2: Election to the Office of Director- Edward Smith

"That Mr Edward Smith be appointed as a director of Xstate Resources Limited, with immediate effect."

RESOLUTION 3: Election to the Office of Director- Paul Cartwright

"That Mr Paul Cartwright be appointed as a director of Xstate Resources Limited, with immediate effect."

RESOLUTION 4: Removal of Director- David McArthur

"That Mr David McArthur be removed as a director of Xstate Resources Limited, with immediate effect."

RESOLUTION 5: Removal of Director- Chris Hodge

"That Mr Chris Hodge be removed as a director of Xstate Resources Limited, with immediate effect"

RESOLUTION 6: Removal of Director- Ian Tchacos

“ That Mr Ian Tchacos be removed as a director of Xstate Resources Limited, with immediate effect.”

By Order of the Board



D M McARTHUR
Company Secretary
Dated: 24 February 2015

Your Board does not support any of the 6 Resolutions contained in this Notice of General Meeting, and will be voting their respective shareholdings against each Resolution.

The Directors consider the Resolutions are not in the best interests of the Company or Shareholders as a whole and recommend that Shareholders vote against all Resolutions at this Meeting.

ENTITLEMENT TO ATTEND AND VOTE

PROXIES

Please note that:

- (a) a member of the Company entitled to attend and vote at the 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.

In the event that the Chair of the Meeting is entitled to exercise proxies on behalf of Shareholders, the Chair intends to **vote against** all Resolutions.

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 or davidm@broadwaymgt.com.au 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 General Meeting (“Notice”) of the Company.

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

Shareholders should note that the Board of Directors has called this Meeting following a requisition lodged under Section 249D of the Corporations Act by Mr Paul Cartwright and Mr Raymond Ronchi and Mrs Janice Helen Ronchi <Ronchi Super Fund A/C> (“the S249D Notice”) who in aggregate hold more than 5 % (total holding 5.42%) of the Company’s Shares at the date of the S249D Notice.

Your Board does not support any of the 6 Resolutions contained in this Notice of General Meeting, and will be voting their respective shareholdings against each Resolution.

1. ASX LIMITED (“ASX”) LISTING RULE REQUIREMENTS

There are no special ASX Listing Rule requirements relating to the Resolutions and no voting exclusions apply.

2. CORPORATIONS ACT REQUIREMENTS

Section 249D of the Corporations Act relevantly provides that the directors of a company must call and arrange to hold a general meeting on the request of members with at least 5% of the votes that may be cast at the general meeting. The request must be in writing and must state the resolutions to be proposed at the meeting and be signed by the member making the request and be given to the company.

The directors must call the general meeting within 21 days of receiving a notice under section 249D of the Corporations Act. The general meeting must be held within 2 months of receiving a notice notice under section 249D of the Corporations Act.

Furthermore, pursuant to section 203D of the Corporations Act, a public company may by resolution remove a director from office regardless of any provision in that company’s constitution or any agreement between the director and the company.

3. BACKGROUND

On 9 February 2015, Mr Paul Cartwright and Mr Raymond Ronchi and Mrs Janice Helen Ronchi <Ronchi Super Fund A/C> (“the Requisitioners”) delivered notices to the Company under sections 249D and 203D of the Corporations Act under which they requested that the Company convene a general meeting of its

Shareholders to consider resolutions relating to the removal of the existing Directors from the Board and appointing Mr Paul Cartwright, Mr Edward Smith and Mr Raymond Ronchi as new directors of the Company (“**Requisition Notices**”). The Requisitioners hold 9,868,570 Shares in the Company, being 5.42% of the Shares on issue in the Company.

As a result, the Company has convened this Meeting to consider the Resolutions provided by the Requisitioners and set out in the Notice of Meeting.

4. RESOLUTIONS 1 TO 3 – APPOINTMENT OF DIRECTORS

Clause 13.3 of the Constitution provides that the Company may elect a person as a director by resolution passed in general meeting. No person other than a director seeking election shall be eligible for election to the office of director at any general meeting unless the person or some Shareholder intending to propose his or her nomination has, at least 30 business days before the meeting, left at the registered office a notice in writing duly signed by the nominee giving his or her consent to the nomination and signifying his or her candidature for the office or the intention of the Shareholder to propose the person. Notice of every candidature for election as a director needs to be given to each Shareholder with or as part of the notice of the meeting at which the election is to take place. As such, the notices of nomination and consent to act for each of the Requisitioners’ proposed directors are set out in Schedule 1 to this Notice.

Subject to the passing of the Resolutions in favour of the appointment of the Proposed Directors, those appointments will take effect immediately.

Section 249P of the Corporations Act provides that the parties who have requisitioned the meeting under section 249D may have a statement included in the Explanatory Memorandum providing information or expressing opinion on the Resolutions proposed in the Notices. No such statements have been received by the Company as at the date of this Notice of Meeting.

In the absence of a statement from the Requisitioners providing background on the nominated candidates or a plan for the Company that could be included in this Notice for your consideration, your Board is unable to make any comments or recommendations on either of these two key issues that would appear central to a Shareholder’s decision on the Resolutions.

4. RESOLUTIONS 4 TO 6 – REMOVAL OF DIRECTORS

Under section 203D of the Corporations Act, a company may by resolution remove a director from office.

The Requisitioners have given notice of their intentions to move Resolutions 4 to 6 for the removal of the existing Directors

If Resolutions 4 to 6 are successful, the existing Directors will be removed from their office as Directors of the Company with immediate effect.

In reaching this recommendation your Board considered the following matters that it believes are pertinent to the interests of shareholders:

- Your Board believes it is inappropriate for 2 shareholders with a combined shareholding of only 5.42% of the Company to nominate persons who would represent the entire Company.
- The collective experience and corporate knowledge of the Company, detailed knowledge of its current projects and the important relationships the current Board has established with key stakeholders may be substantially damaged if the full Board is removed. In the view of your Board, given the small size of the Company, this loss of collective knowledge would be detrimental to the interests of all Shareholders.
- No future intentions or plans for the Company have been provided, nor has the Company received details in relation to the experience of the nominated directors.

- If Resolutions 1 to 3 (appointment of directors) are unsuccessful and at least one of Resolutions 4 to 6 (removal of Directors) are successful, then the Company will only have two directors and its securities may be immediately placed into a trading halt and possible suspension from trading by the ASX, until a new director is appointed. The Company would also be in technical breach of the Corporations Act until a third director is appointed.

Your Board's Recommendation:

Your Board unanimously recommends that Shareholders reject all of the business before the Meeting by voting AGAINST all of Resolutions 1 to 6.

Given the nature of the business of the Meeting, the Directors recommend that all Shareholders appointing a proxy direct their proxy/s how to vote on the Proxy Form.

The Chair intends to vote all open proxies granted to the Chair against each of Resolutions 1 to 6.

GLOSSARY

\$ means Australian dollars.

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.

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.

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

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

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).

**SCHEDULE – NOTICES OF NOMINATION AND CONSENT TO ACT FOR THE
PROPOSED DIRECTORS**

CORPORATIONS ACT 2001

CONSENT TO ACT AS DIRECTOR AND
STATUTORY INFORMATION UNDER CHAPTER 2D

I hereby consent to act as Director of Xstate Resources Limited (ACN 009 217 154)
and provide the following information:

Full Name: *RAYMOND RONCHI*

Residential Address: *267 BEERING ROAD FRISHTOWN 6401*

Former/Maiden Names:

Date of Birth: *3/3/1937*

Place of Birth: *PERTH*

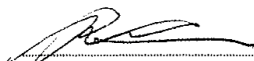
Occupation:

Qualifications:

Other Public Company *NIL*

Directorships:

Full details of any
securities held in the
Company (directly or *2,400,000 RONCHI SUPER FUND*
indirectly):



Signature

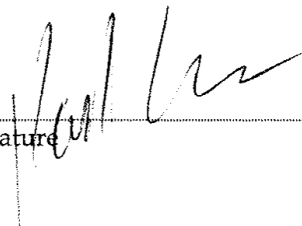
Dated: *9TH* February 2015

CORPORATIONS ACT 2001

CONSENT TO ACT AS DIRECTOR AND
STATUTORY INFORMATION UNDER CHAPTER 2D

I hereby consent to act as Director of Xstate Resources Limited (ACN 009 217 154)
and provide the following information:

Full Name: PAUL CANTONMENT
Residential Address: 9/12 DORRILL ST, N. FIVE WINDS
Former/Maiden Names: _____
Date of Birth: 18/2/64
Place of Birth: PETERSFIELD U.K.
Occupation: _____
Qualifications: _____
Other Public Company Directorships: _____
Full details of any securities held in the Company (directly or indirectly): 7,468,570

Signature 


Dated: 9th February 2015

CORPORATIONS ACT 2001

CONSENT TO ACT AS DIRECTOR AND
STATUTORY INFORMATION UNDER CHAPTER 2D

I hereby consent to act as Director of Xstate Resources Limited (ACN 009 217 154)
and provide the following information:

Full Name: EDWARD SCOTT SMITH
Residential Address: 188. ALBERTA PARADE
UPPER SWAN.
WA 6060
Former/Maiden Names:
Date of Birth: 10/06/41
Place of Birth: COUNTRY ENGLAND
Occupation:
Qualifications: —
Other Public Company
Directorships: NIL
Full details of any
securities held in the
Company (directly or
indirectly): —


Signature

Dated: 9 February 2015

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 a general meeting of the members of XState Resources Limited to be held on 7 April 2015 commencing at 11.00 am (WST) and at any adjournments of that general meeting.

DATED

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, fax the Certificate to the registered office at +61 8 9389 8327 or scan to davidm@broadwaymgt.com.au

PROXY FORM
APPOINTMENT OF PROXY
XSTATE RESOURCES LIMITED
 ABN 96 009 217 154

GENERAL MEETING

I/We

Address

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

Appoint

Name of proxy (**Please note:** Leave blank if you have selected the Chair of the General Meeting as your 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 General Meeting, or the Chair's nominee, to vote in accordance with the following directions or if no directions have been at the General Meeting to be held at 11.00 am (WST) on 7 April 2015 at Level 2, 55 Carrington St, Nedlands, Perth WA and at any adjournment of that meeting.

The Chair intends to vote undirected proxies AGAINST all Resolutions.

Voting on Business of the General Meeting

- Resolution 1 – Election of Director- Raymond Ronchi
- Resolution 2 – Election of Director- Edward Smith
- Resolution 3 - Election of Director- Paul Cartwright
- Resolution 4 – Removal of Director- David McArthur
- Resolution 5 – Removal of Director- Chris Hodge
- Resolution 6 – Removal of Director- Ian Tchacos

FOR	AGAINST	ABSTAIN
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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 be counted in computing the required majority on a poll.

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: _____

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 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; andFurther 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 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. **(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.
6. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the 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 General Meeting.
7. **(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
8. **(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 110 Stirling Highway, Nedlands, Perth, WA;
 - (b) By mail to PO Box 1156, Nedlands, WA, 6909.
 - (c) By Facsimile to +61 8 9262 3723;
 - (d) By scan and email to admin@advancedshare.com.au

so that it is received at least 48 hours prior to commencement of the General Meeting. Proxy Forms received later than this time will be invalid.

DEAR XSTATE RESOURCES LIMITED SHAREHOLDER,

On or around 16 February 2015 you may have received a letter from Mr Paul Cartwright dated 13 February 2015 attaching an article from *energynewsbulletin.net* (**Energy News**) regarding your shareholding in Xstate Resources Limited (**Xstate** or **Company**). Mr Cartwright is the former Managing Director of Xstate and has, together with another shareholder, requisitioned a meeting of Xstate shareholders to consider resolutions to remove the existing Directors of Xstate and replace them with Mr Cartwright and two other nominees.

The letter and accompanying article also contains various statements in relation to your current Directors and their conduct in relation to the management of Xstate. A further letter from Mr Cartwright is included with this notice of meeting.

Firstly, our sincere apologies that you have become involved in what is essentially an issue between Mr Cartwright and Xstate, from which he was effectively removed as a director.

Due to a number of performance issues over a period of time that were not resolved by Mr Cartwright to the satisfaction of the Board, at the request of the Board Mr Cartwright tendered his resignation. The suggestion by Mr Cartwright that he was requested to leave at the behest of the directors of Australian Oil Company Limited (AOC), Xstate's joint venture partner in the United States assets, is not correct. The request that Mr Cartwright step down from the Board came directly from the Xstate directors, at their own instigation. Mr Cartwright states he was paid \$31,000. Mr Cartwright was paid his full entitlement pursuant to the signed employment contract he negotiated with the Company.

Since his resignation Mr Cartwright has made no attempt to contact any of the directors of the Company to obtain an update as to the current and future activities of the company. In that regard it is hard to see how Mr Cartwright can meaningfully make direct statements as to the current and future activities of the Board.

The Company is actively pursuing joint venture opportunities over its US assets, in a very difficult market. This work continues, and the Board is confident a suitable joint venture partner will be identified that will help fund future activities. The activity of the Company has by necessity changed as the ongoing decline in the market for junior explorers in the oil and gas sector continues. Mr Cartwright has not been privy to details of any of the discussions with parties to date. We do not intend making a comment as to Mr Cartwright's personal views on the Californian assets of the company. Mr Cartwright is entitled to his opinions, however suffice to say his views are not shared by the Board or the technical consultants to the joint venture, nor necessarily other joint venturers.

Mr Cartwright states that Xstate is pursuing AOC's agenda. As Xstate has a strategic alliance with AOC over all the Californian asset held by the two companies, this is probably a logical course of action for both companies to take. To a large extent we share a common agenda - create value for our respective shareholders from the same asset base. That is what both companies are attempting to achieve.

It is disappointing that Mr Cartwright states the entire Board of Xstate lacks independence and has confused your (and our) interests as shareholders of Xstate with that of AOC. Your directors are very experienced, professional Board members, all having previously been managing directors of successful companies. They have a substantial number of years of collective corporate and listed public company experience in the oil and gas industry, and are certainly aware of their fiduciary duty to shareholders. The comments have no foundation and are highly offensive to such an experienced and committed Board of directors.

Mr Cartwright makes reference in both his letters to an article in Energy News that he suggests support his view as to the lack of Board independence. The article states that Xstate and AOC are involved in a complex corporate arrangement, share offices and that members of the AOC Board have previously been directors of Xstate. This is correct. It also states the Gary Jeffery, AOC's Managing Director, is the largest shareholder of Xstate. This is also correct. None of the current Board members can see any comments in the article that would

even remotely support the assertion that the Xstate directors all have a conflict of interest and would not act in the best interest of Xstate, or worse would put AOC's interests before those of Xstate. It should be noted that Mr McArthur and Mr Tchacos do not even hold any shares in AOC. Mr Hodge holds 1,225,000 the majority of which were acquired prior to his appointment to the Xstate Board.

The comment made by Mr Cartwright to Energy News "that AOC could seek to cannibalise Xstates cash" is an outrageous suggestion as it presupposes that the Board of AOC would do such a thing and even worse that your Board of Xstate would allow this to happen.

Mr Cartwright incorrectly implies that over his time as managing director the Xstate share price rose from 1.2 cents to over 5 cents. In fact at the time of his appointment the price was 3 cents, and at the time of his departure the price was 2.7 cents. The price was 1.2 cents at the time of the Good Oil conference in early September 2013. Following the conference and follow up promotion by the then Managing Director, Gary Jeffery, the share price moved up to 3 cents on the day Mr Cartwright was appointed as Managing Director. The downward trend from above 5 cents to 2.7 cents at the time of his departure was already well established, and was partly the result of the non delivery of milestones that were communicated by Mr Cartwright without the approval or support of his fellow Board members. Further, it is noteworthy that over a period of downward share price pressure Mr Cartwright sold some 3.1 million shares in the Company on market (as evidenced by a form 605 that was only recently lodged by Mr Cartwright when he was advised by Xstate he had not done so as required). The Company even approached Mr Cartwright with an offer of assistance to find a buyer for his shares to ease the downward pressure of a perceived market overhang. Sales by Mr Cartwright accounted for 20% of sales in the period between 1 September 2014 and 8 December 2014. The current price is predominantly a reflection of the difficult market conditions for junior oil and gas companies in a market dominated by falling oil price news.

Mr Cartwright states that the proposed directors combined have a significant shareholding in Xstate, holding approximately 5.4% of the Company. It should be noted that the existing Board hold 6% of the Company. It is noted that Mr Smith, a proposed director, holds no shares in Xstate.

I would ask any shareholder with any questions that they wish to raise in relation to the allegations and assertions made by Mr Cartwright to call David McArthur on 0894233200 or email to davidm@broadwaymgmt.com.au.

Your Directors urge you to **VOTE AGAINST** all the resolutions that have been requested be put to the upcoming meeting of shareholders. You have a highly experienced Board who have dealt with difficult market conditions before, are motivated to deliver value for their shareholders in any corporate transaction and have the ability to provide the Company with the future activity it requires.

Shareholders will be kept informed as to the status of activity in the US through stock exchange releases.

For your information we detail below a brief CV of your three existing directors.

Chris Hodge

Managing Director

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.

Ian Tchacos

Non-executive Director

Experience and expertise

Ian Tchacos is an oil and gas professional with over 30 years international experience in corporate development and strategy, mergers and acquisitions, petroleum exploration, development and production operations, decision analysis, commercial negotiation, oil and gas marketing and energy finance. He has a proven management track record in a range of international energy company environments. In his last executive appointment as Managing Director of Nexus Energy Ian was responsible for this company's development from an onshore micro cap explorer to an ASX top 200 offshore producer and operator.

Ian is currently non-executive Chairman of ADX Energy Limited and Riedel Resources Limited as well as providing strategic, technical and finance advice to a number of other listed and unlisted companies. Ian is a member of the Society of Petroleum Engineers and provides oil and gas related international professional training on the subjects of petroleum engineering, economics, investment analysis, commercial negotiation and strategy.

David McArthur

Non executive Director and Company Secretary

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 28 years.

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. Mr McArthur is an executive director of Lodestar Minerals Limited and a non executive director of Renewable Heat and Power Limited. Mr McArthur is also company secretary for a number of public listed companies.



Chris Hodge



David McArthur



Ian Tchacos

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An open letter to fellow XST shareholders from Paul Cartwright

Dear Shareholder

After serious consideration I and other shareholders have reluctantly decided to seek the replacement of the current board of Xstate Resources (XST), due to the following reasons:

- 1. Failure to execute XST strategy as communicated to shareholders**
- 2. Failure to maximise the onshore Californian opportunity**
- 3. Lack of action and direction by the current board**
- 4. Perceived lack of independence of the current board**
- 5. Having a closed mind to new exploration projects**

I am fully aligned with shareholders, holding 7,468,570 shares (~4.1%). My shareholding is ten times the amount of shares held by Mr Tchacos, three times than the current MD Mr Hodge, and broadly similar to Mr McArthur.

We must refocus the company for success instead of suffering more share price declines. During my term as MD of XST, the share price went from ~1.2c to over 5 cents a share, albeit in a less bear market.

A failure to execute the strategy that was communicated to shareholders

In November 2013 I was appointed as MD of XST, with a share price of ~1.2 cents and an opportunity (25% equity) to explore in California. After negotiating an improvement to 30% equity of the joint venture (JV) between XST and AOC, and raising \$330,000 (at 3 cents) in December 2013, XST was on track with a significant exploration project.

In February 2014, XST raised \$1,000,000 (at 5 cents) with the stated objective that these funds would be utilised to dramatically expand XST's Californian exposure.

In August 2014, I was requested to leave the company by fellow XST directors at the behest of AOC directors and was paid of \$31,000.

In my opinion, I believe the company has not done what it said it would do in relation to the last two capital raisings and that is continue to acquire and develop land in California. The petroleum geology in California offers a unique potential to discover world class conventional gas fields, in the most energy consuming markets in the world.

XST and AOC: is the perceived lack of independence a drag on XST?

Let me quote what respected industry journal Energy News printed on 13 February: "The relationship between Xstate and AOC is not an easy one to unpack..." with the companies sharing an office and JV assets, and many of the AOC board are Xstate shareholders, having served as directors at Xstate in the recent past.

Energy News then quotes Mr Gary Jeffery (XST's biggest shareholder and former Xstate and current AOC managing director) admitting there was "some level of confusion in the market" about the XST/AOC relationship.

The view of the proposed new directors is that this confusion must be cleared up so that XST's best interests are served.

Since August 2014, the XST current board appears to have focusing solely on the AOC JV agenda:

1. The current board has become distracted from its communicated strategy and wasted effort on a new JV called CAL LNG LLC which plans to define USA LNG exports sites, a move that is clearly now quite counter to industry trends as many major gas company's drop there multibillion dollar LNG export plans.
2. The current board, by pursuing an unsuccessful strategy of farming out the gas prospects has not fully taken account of other options of evaluating the exploration potential of California.
3. The current board inexplicably and without valid arguments communicated to XST shareholders their preference to drill the Dempsey exploration prospect (1 TCF) rather than appraisal drilling of the giant XST Alvares structure (3-5 TCF).

Dempsey (XST 10%) defined on 3D seismic has several major unknowns when compared to the Alvares anticline. Dempsey is beneath a known gas field and is targeting sedimentary layers that are unknown with no evidence any of gas being present.

Meanwhile, the Alvares (XST 25%) defined on 2D seismic has been drilled, intersected ~1,000m of high pressure gas, trapped in layers of shales and coarse turbidite sands. Earlier flow testing recovered clean sweet gas. The only unknown is will one of the known sandstone layers at Alvares flow gas at commercial rates?

The view of the proposed new board is that Alvares should be re-tested first, the cost of drilling has dropped, it is an appraisal well and XST has much greater ownership equity 25% vs 10%.

4. In addition to XST board demonstrating a lack of inclination to acquire more land, the future rights to currently leased land could be in jeopardy. AOC is now low on funds (AOC December balance \$119,000). This is a significant concern, as annual lease renewal payments will begin to fall due which AOC is responsible for paying.

Summary

By voting in favour for all the resolutions at the forthcoming XST General Meeting, I believe that what is a "distracted, ineffective and non-independent" company can be brought back on track.

The new board will cast a careful eye over pathways forward and:

1. **Do what is best for XST and clearly define its relationship with AOC**
2. **Protect XST's JV interest by seeking clarity on the status of the lease renewals as a matter of urgency**
3. **Carefully consider new land acquisitions in California**
4. **Pursue development of the Alvares structure (3-5 TCF) rather than the Dempsey exploration prospect (1 TCF)**
5. **Keep an open mind and investigate new exploration projects**

A further "wait and see" attitude is now clearly most unlikely to advance XST.

The proposed directors combined have significant shareholdings in XST, years of experience in hydrocarbon exploration, and excellent reputations for getting things done.

I look forward to meeting with you at the General Meeting and I am only too happy to discuss these issues with you in person or by telephone prior to this.

My email is paulcartwright.4343@gmail.com and my mobile number is 0409 105 828 - please feel free to contact me.

Yours faithfully



Paul Cartwright

18 February 2015

Signed by:



Mr Raymond Ronchi



Mrs Janice Helen Ronchi

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