ABN 96 009 217 154

21 April 2015

ASX Limited

Electronic lodgement
ASX Code: XST

DISPATCH OF 2014 ANNUAL REPORT AND NOTICE OF AGM

Attached is copy of the 2014 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
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www.xstate.com.au

XSTATE RESOURCES LIMITED

ABN 96 009 217 154

NOTICE OF ANNUAL GENERAL MEETING

PROXY FORM

AND

EXPLANATORY MEMORANDUM

Date of Meeting

Wednesday 20 May 2015

Time of Meeting

10.00 am (WST)

Place of Meeting

Level 2, 55 Carrington Street
Nedlands, Western Australia

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 10.00 am (WST) on Wednesday 20 May 2015 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

2014 Accounts

To receive and consider the annual financial report, the Directors' report and the auditor's report for the financial year ended 31 December 2014 and the Directors' declaration on the accounts.

Non-binding Ordinary Resolution 1: Directors' Remuneration Report

To receive and consider the Directors' Remuneration Report for the year ended 31 December 2014 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 2014 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 Ian Tchacos

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 Ian Tchacos, who retires having been appointed a director since the last annual general meeting, be re-elected a director of the Company."

Ordinary Resolution 3: Re- 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 13.2 of the Company's Constitution and for all other purposes, Mr David McArthur, a director retiring by rotation, be re-elected a director of the company."

Special Resolution 4: 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 McArthur

D M McARTHUR
Company Secretary
Dated: 9 April 2015

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 19 May 2015 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 2014 and the Directors' declaration on the accounts.

A copy of the Company's 2014 Annual Report is available on the Company's ASX platform (ASX: XST) and on the website www.xstateresources.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 2014.

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 must 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 ***do not*** 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 must 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 ***do not*** need to direct your proxy how to vote, and you ***do not*** need to tick any further acknowledgement on the Proxy Form.

ORDINARY RESOLUTION 2: Election of Director - Mr Ian Tchacos

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 Ian Tchacos was appointed a Director of the Company on 12 August 2014.

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

Details in relation to Mr Tchacos are contained in the Company's 2014 annual report.

ORDINARY RESOLUTION 3: Re- Election of Director - Mr David McArthur

Clause 13.2 of the Company's Constitution provides that at every Annual General Meeting of the Company one third of the Directors (other than Alternate Directors and the Managing Director) shall retire from office. The Directors to retire at an Annual general meeting are those who have been longest in office since their last election. A retiring Director is eligible for re-election.

Accordingly, pursuant to Clause 13.2 of the Company's Constitution, David McArthur, being a Director of the Company longest in office since his last election, retires by way of rotation and, being eligible, offers himself for re-election as a Director of the Company.

Details on relation to Mr McArthur are contained in the Company's 2014 annual report.

SPECIAL RESOLUTION 4: 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 4, 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 4 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 4 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 4 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 $1.82 million (at 7 April 2015).

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 4:

(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 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.

Variable "A"		DILUTION $0.005 50% decrease in Issue Price		$0.01 Issue price		$0.02 100% increase in Issue Price	
Current Variable A **182,129,185 Shares**	**10% Voting Dilution**	18,212,918	Shares	18,212,918	Shares	18,212,918	Shares
	Funds Raised	$91,064		$182,129		$364,258	
50% Increase In Current Variable A **273,193,777 Shares**	**10% Voting Dilution**	27,319,377	Shares	27,319,377	Shares	27,319,377	Shares
	Funds Raised	$136,597		$273,193		$546,388	
100% Increase In Current Variable A **364,258,370 Shares**	**10% Voting Dilution**	36,425,837	Shares	36,425,837	Shares	36,425,837	Shares
	Funds Raised	$182,129		$364,258		$728,516	

* 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 7 April 2015.

(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 7 April 2015.

(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

(iii) 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 30 April 2014. 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 6,416,638 ordinary shares have been issued representing 2.98% 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:	**3 October 2014**
Number issued:	215,903
Class:	Fully paid ordinary
Terms:	Fully paid ordinary shares
Name of applicants:	Directors
Price:	3.6 cents per share
Premium to market:	20%
Total cash received:	Nil
Valuation at issue date:	$6,477.09
Use of cash consideration:	N/A - satisfaction of director's fees.
Intended use of remaining cash:	N/A

Date of Issue:	**25 August 2014**
Number issued:	1,212,963
Class:	Fully paid ordinary
Terms:	Fully paid ordinary shares
Name of applicants:	Directors
Price:	3.0 cents per share
Premium to market:	Nil
Total cash received:	Nil
Valuation at issue date:	$36,388.89
Use of cash consideration:	N/A - satisfaction of director's fees.
Intended use of remaining cash:	N/A

Date of Issue:	**2 July 2014**
Number issued:	895,270
Class:	Fully paid ordinary
Terms:	Fully paid ordinary shares
Name of applicants:	Directors
Price:	3.7 cents per share
Premium to market:	5.7%
Total cash received:	Nil
Valuation at issue date:	$31,334.45
Use of cash consideration:	N/A - satisfaction of director's fees.
Intended use of remaining cash:	N/A

Date of Issue:	**10 June 2014**
Number issued:	4,092,502
Class:	Fully paid ordinary
Terms:	Fully paid ordinary shares
Name of applicants:	Various – Bombora Energy Pty Ltd shareholders
Price:	4 cents per share
Premium to market:	8.1%
Total cash received:	Nil
Valuation at issue date:	$151,422.58
Use of cash consideration:	N/A – Acquisition of 12,277,506 shares in Bombora Energy Pty Ltd
Intended use of remaining cash:	N/A

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 4.

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 2014.

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 20 May 2015 commencing at 10.00 am (WST) and at any adjournments of that annual general meeting.

DATED ………………………………………..2015

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 10.00 am (WST) on Wednesday, 20 May 2015 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 – Ian Tchacos	☐	☐	☐
Ordinary Resolution 3 – Re-Election of Director- David McArthur	☐	☐	☐
Special Resolution 4 – 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:** ______________________

Member 1 **Member 2**

Sole Director/Company Secretary	**Director**	**Director/Company Secretary**

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

XSTATE RESOURCES LIMITED

ABN 96 009 217 154

ANNUAL REPORT

2014

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CORPORATE DIRECTORY

DIRECTORS AND COMPANY SECRETARY:

Chris Hodge
Managing Director

Ian Tchacos
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

PRODUCTION

<u>Sacramento Basin</u>

Rancho - Capay Gas Field (XST 10% WI in 5 wells) & Los Medanos Gas Field (XST 10% WI in 2 wells)

Xstate acquired a working interest in minor gas production rights in the Sacramento Basin onshore California in 2013. The purpose of the acquisition was to acquire the leases for further exploration and to access an extensive 3D seismic database from which to generate new exploration opportunities.

Production for the year was as follows:

Production	2014
Gross mcf ** (100%)	200,487
Net XST mcf (after Royalty)	13,639

**mcf - Thousand cubic feet gas

Figure 1. Location of the Sacramento and Santa Maria Basins in California

EXPLORATION

<u>Sacramento Basin</u>

Exploration leases continued to be acquired or renewed, resulting in a land holding of ~19,000 gross acres across the basin. XST has a working interest (WI) in these leases of between 10% and 30%.

Xstate, as part of its area of mutual interest (AMI) with Australian Oil Company (AOC) purchased and reprocessed 2D seismic data in the area, and the improved data was mapped to better define current and additional prospects for exploration drilling.

Geological evaluation and geophysical mapping was finalised over 2 prospects. They are:

1) The Alvares appraisal project (XST 25% WI) which involves the appraisal drilling of a large anticline originally drilled in 1982 and which had extensive gas shows and flowed gas to surface. Best estimate deterministic recoverable prospective resource is over 2 TCF.

REVIEW OF OPERATIONS (continued)

EXPLORATION

Sacramento Basin (continued)

The plan is to re-drill or potentially to re-enter the well to definitively test the productive potential of the well.

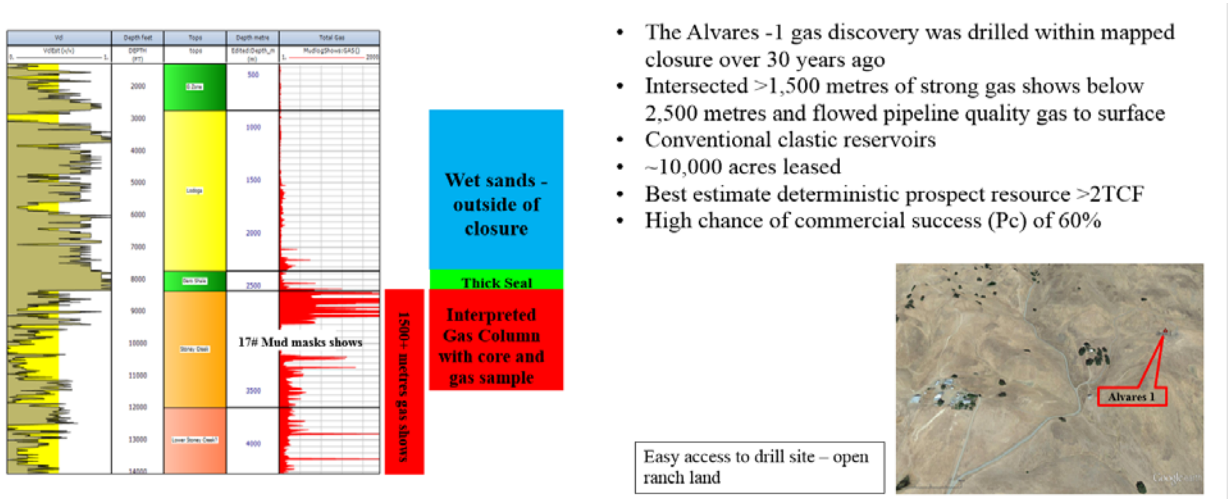

Figure 2. Diagrammatic representation and interpretation of the Alvares – 1 gas discovery

2) The Dempsey gas prospect (XST10% WI) is a large fault bound anticline mapped on 3D seismic with up to 7 prospective reservoir targets. Best estimate deterministic recoverable prospective resource is approximately 1 TCF.

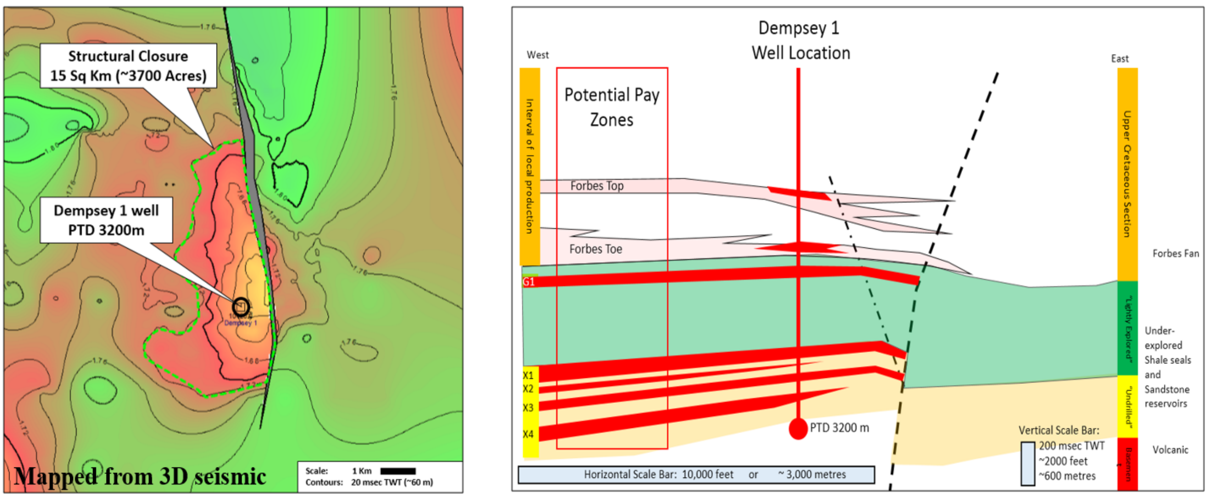

Figure 3. Map and cross-section of the Dempsey prospect

In addition to these two matured prospects, several other prospects have been identified and are in the process of being worked up into drillable prospects. One of these prospects, and the closest one to be finalised, is a relatively shallow test of a prospect mapped on 3D seismic with some 40 - 80 BCF of gas potential.

SCU #1-24 water-disposal project (13.25%)

During the year, XST increased its equity in the SCU #124 water-disposal project by 2.31% to 13.25% for zero consideration. It is anticipated that the well will be worked-over in anticipation of water injection activities during 2015 with the injection of approximately 4,000 bbls water per day for a fee of around $3/bbl.

REVIEW OF OPERATIONS (continued)

EXPLORATION (continued)

Santa Maria Basin

Porter Ranch Project (XST 22.5% Working Interest)

The Porter Ranch oil exploration project in San Luis Obispo County consists of a gross 9,051 acres leased over a number of surface anticlines in the prospect area. During the year, the permitting process continued in preparation for the drilling of one exploration well with a planned total depth of 1,500 metres to test the Monterey oil reservoirs.

The prospect has best estimate recoverable prospective resources of 10 million barrels of oil. This estimate is based on surface geology, 2D seismic and geologic and production parameters from nearby wells and comparisons to analogous fields in the Santa Maria Basin.

The County continues to evaluate the application to drill an exploration well on the Porter Ranch leases.

CAL LNG

Late in 2014, XST announced the formation of Cal LNG LLC (“Cal LNG”), a joint venture company which is seeking to develop an LNG export and domestic supply facility on the west coast of the USA. Project sites have been identified and negotiations for Cal LNG to secure a site are progressing. Cal LNG has been incorporated in the United States and is a joint venture between AOC (42%), Xstate (18%) and private oil and gas company Blue Sky E&P Holdings Ltd (40%).

CORPORATE

Placement of shares

On 19 February 2014 the Company placed 20 million shares at 5 cents raising $1,000,000. The placement was primarily made to long term supporters of the Company. Some $850,000 of the funds raised were converted to USD to limit the Company's exposure to any fluctuation in the value of the Australian dollar, on the basis that a significant portion of the funds would be expended in the USA.

Acquisition of 100% of Bombora Energy Pty Ltd

Following shareholder approval, the acquisition of 75.90% of Bombora Energy Pty Ltd was completed on 31 January 2014 by way of the issue of 12,892,084 shares in the Company.

On 10th June 2014 the Company acquired the remaining 24.1% of Bombora by way of the issue of 4,092,502 shares in the Company.

Board Changes

On 11 August 2014 Paul Cartwright resigned as Managing Director of the company.

On 12 August 2014 Chris Hodge, an existing Board member, was appointed Managing Director.

On 12 August 2014 Ian Tchacos was appointed as a Non-Executive Director.

Planned activity - 2015

- Continued efforts to farm-out the Alvares and Dempsey prospects
- The leasing of additional prospective land in the Sacramento Basin
- The possible exercise of an option to acquire additional interests in existing projects
- Work-over of the SCU #1-24 well ahead of commencement of water injection operations

REVIEW OF OPERATIONS (continued)

Competent Persons Statement

The technical information provided has been compiled by Mr Chris Hodge, Managing Director of Xstate Resources Limited. He is a qualified petroleum geologist with over 35 years technical, commercial and management experience in exploration for, appraisal and development, and transportation of oil and gas and mineral and energy resources. Mr Hodge has reviewed the results, procedures and data contained in this report. Mr Hodge consents to the inclusion of the above information in the form and context in which it appears.

DIRECTORS' REPORT

The Directors present their report together with the financial statements of the Group, comprising Xstate Resources Limited ("the Company") and its controlled entities (together referred to as "the Group" and individually as "Group Entities") for the financial year ended 31 December 2014 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 from 24 October 2013 to 11 August 2014
Non-executive	
Chris Hodge	Director since 12 November 2013
David McArthur	Director since 4 September 2013
Ian Tchacos	Director since 12 August 2014

Chris Hodge
Managing Director
Appointed Managing Director on 12 August 2014

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.

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
None

1. DIRECTORS (continued)

Ian Tchacos
Non-executive Director

Experience and expertise
Mr Tchacos is a mechanical engineer with over 25 years international experience in corporate development and strategy, mergers and acquisitions, exploration, development and production, operations, marketing and finance. He has a proven management track record in a range of international company environments.

In his last appointment as Managing Director of Nexus Energy he was responsible for the company's development from an onshore micro cap explorer to an ASX top 200 onshore producer and operator.

Other current directorships

Non-executive Director	ADX Energy Limited	2 March 2010 to current
Non-executive Director	Riedel Resources Limited	9 April 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

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 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.

Other current directorships

Executive director	Lodestar Minerals Limited	13 August 2007 to current
Non-executive director	Renewable Heat and Power Limited	14 August 2013 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

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 30 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 2014, 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
Chris Hodge	10	10	2	2	-	-
Ian Tchacos	5	5	1	1	-	-
David McArthur	10	10	2	2	-	-
Paul Cartwright	5	5	N/A	N/A	-	-

4. PRINCIPAL ACTIVITIES

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

5. OPERATING AND FINANCIAL REVIEW

Overview

Xstate Resources Limited is a gas exploration company, headquartered in Perth, Western Australia and listed on the Australian Securities Exchange (ASX: XST) with approximately 182 million shares on issue.

Summary of material transactions

Following shareholder approval, the acquisition of 75.90% of Bombora Energy Pty Ltd was completed on 31 January 2014 by way of the issue of 12,892,084 shares in the Company. On 10th June 2014 the Company acquired the remaining 24.1% of Bombora by way of the issue of 4,092,502 shares in the Company.

At a General Meeting on 31 January 2014, shareholders approved:

- the issue of 16,500,000 Director options exercisable at 6, 8 and 10 cents by 31 December 2015.
- the issue of up to 7,625,000 shares at not less than 2.0 cents each, totalling a value of $152,500 in satisfaction of Directors' fees under the Incentive Share Plan approved by shareholders on 31 May 2013.
- the issue of 458,333 shares to Mr David McArthur and 250,000 shares to Mr Chris Hodge who are also shareholders of Bombora Energy Pty Ltd as a related party payment in consideration for the acquisition. The shares were issued for nil cash consideration with a deemed issue price of 2.6 cents each.

5. OPERATING AND FINANCIAL REVIEW (continued)

Summary of material transactions (continued)

On 19 February 2014 the Company placed 20 million shares at 5 cents raising $1,000,000. The placement was primarily made to long term supporters of the Company. Some $850,000 of the funds raised were converted to USD to limit the Company's exposure to any fluctuation in the value of the Australian dollar, on the basis that a significant portion of the funds will be expended in the USA.

On 11 August 2014, Paul Cartwright resigned as executive director.

On 12 August 2014, Ian Tchacos joined the Board as non-executive director.

On 12 August 2014, Chris Hodge was appointed Managing Director.

On 25 August 2014, the Company issued 1,212,963 fully paid ordinary shares at 3 cents each in satisfaction of director's fees.

Financial Results

The loss for the financial year ended 31 December 2014 attributable to members of Xstate Resources Limited after income tax was $1,541,351 (2013:loss of $1,368,998).

During the financial years 2010 to 2014, 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 2010 to 2014 have been calculated in accordance with Australian Accounting Standards (AASBs).

Review of financial condition

During the year the net assets of the Group increased by $1,011,902 from $272,605 at 31 December 2013 to $1,284,507 at 31 December 2014.

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 under review, other than those matters referred to in the summary of material transactions and operations report.

6. DIVIDENDS

The directors recommend that no dividend be provided for the year ended 31 December 2014.

7. SUBSEQUENT EVENTS

Other than the matters disclosed in note 32 of the notes to the consolidated financial statements, there have not arisen in the interval between the end of the financial year and the date of this report any matters or circumstances that have significantly affected or may significantly affect the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial years.

8. LIKELY DEVELOPMENTS

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

9. ENVIRONMENTAL REGULATION

The Group is subject to significant environmental regulation in relation to its exploration activities and aims to ensure that the highest standard of environmental care is achieved, and that it complies with all relevant environmental legislation. The Directors are not aware of any breaches during the period covered by this report.

10. DIRECTORS' INTERESTS

The relevant interest of each director in the shares and options, 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
Chris Hodge	2,284,839	3,000,000
Ian Tchacos	516,467	-
David McArthur	8,119,330	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			
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			
Chris Hodge	1,000,000	6	31 December 2015
	1,000,000	8	31 December 2015
	1,000,000	10	31 December 2015
David McArthur	1,000,000	6	31 December 2015
	1,000,000	8	31 December 2015
	1,000,000	10	31 December 2015

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 (continued)

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	6,000,000
31-December-2015	10 cents	5,500,000
31-December-2016	5 cents	2,500,000
		39,000,000

All unissued shares are ordinary shares of the Company.

These options do not entitle the holder to participate in any share issue of the Company.

Further details about share-based payments to directors are included in the Remuneration Report.

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.

12. INDEMNIFICATION AND INSURANCE OF OFFICERS

During the financial year, the Company paid a premium of $20,234 (2013: $19,147) (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 entity, 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:

	2014 $	2013 $
Taxation Services		
KPMG Australia		
Taxation compliance services	14,050	12,000
Total remuneration from non-audit services	**14,050**	**12,000**

14. 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

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.

14. REMUNERATION REPORT – AUDITED (continued)

Principles of Compensation (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		2014	2013	2012 Restated	2011 Restated	2010 Restated
Net profit / (loss) attributable to equity holders	($)	(1,485,283)	(1,368,998)	(2,562,319)	(3,131,774)	(6,489,295)
Basic EPS	(cents)	(0.88)	(1.17)	(2.54)	(4.02)	(20.07)
Closing share price	(cents)	1.0	3.5	1.5	7	15

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 comprised $100,000 cash and $100,000 in shares, such shares issued on a calendar quarterly basis. The agreement may be terminated by the Company or Mr Cartwright with three months' notice. Mr Cartwright resigned on 12 August 2014.

On 20 July 2010, an employment service agreement was entered into with David McArthur for the provision of corporate and secretarial services for 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's cash balance, with effect from 1 July 2013 the payment to David McArthur comprised $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 formula for the issue price of these shares is 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 payment of fees through the issue of shares ceased in October 2014.

Executive and non-executive compensation
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.

Under an Incentive Share Plan approved by shareholders on 31 May 2013, the directors elected to receive 50% of their fees by way of the issue of shares, such shares issued on a calendar quarterly basis with the formula for the issue price being 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. Shareholders approved this basis of payment on 31 January 2014. The payment of fees through the issue of shares ceased in October 2014.

14. REMUNERATION REPORT – AUDITED (continued)

Principles of Compensation (continued)

Executive and non-executive compensation

Details of shares issued to key management personnel are as follows:

	Tranche	Value of services rendered (A) $	Fair value of shares at 31 Dec-2013 3.5 cents each (B) $	Market value of shares on issue date (C) $	No. of Plan Shares issued	Date of Issue
Executive directors						
Paul Cartwright	1	15,068	20,277	30,706	579,358	31-Jan-14
	2	25,000	-	25,610	609,756	3-Apr-14
	3	25,000	-	23,649	675,676	2-Jul-14
	4	36,389	-	36,389	1,212,963	25-Aug-14
Chris Hodge	1	2,182	2,937	4,447	83,904	31 Jan-14
	2	4,063	-	4,162	99,085	3-Apr-14
	3	4,063	-	3,843	109,797	2-Jul-14
	4	4,063	-	3,385	112,847	3-Oct-14
Non-executive directors						
David McArthur	1	5,220	10,902	16,509	261,432	31 Jan-14
	2	3,719	-	3,809	90,696	3-Apr-14
	3	4,063	-	3,843	109,797	2-Jul-14
	4	3,710	-	3,092	103,056	3-Oct-14
Senior executives						
David McArthur	1	10,000	20,888	31,630	646,853	31 Jan-14
	2	5,000	-	5,122	121,951	3- Apr-14

14. REMUNERATION REPORT – AUDITED (continued)

Principles of Compensation (continued)

Executive and non-executive compensation (continued)

<u>Notes to the table of shares issued to key management personnel</u>

(A) Reflects the contractual salary amounts that have been settled by the company in shares
(B) Reflects the estimated fair value of shares to be issued to directors/executives that remained subject to shareholder approval at 31 December 2013
(C) Reflects the market value of shares at the date of issue

The movement between (B) and (C) for tranche 1 has been recorded in the current period as a true up based on fair value of shares at issue date.

Tranche 1 relates to the 3 month periods ended 30 September 2013 and 31 December 2013.

Tranches 2 and 3 relate to the 3 month service periods ended 31 March 2014 and 30 June 2014 respectively.

Tranche 4 relates to the 3 month service period ended 30 September 2014 for Chris Hodge and David McArthur. In the case of Paul Cartwright tranche 4 relates to the period ended 11 August 2014, being the date of Mr Cartwright's resignation, plus 50% of his three months' notice period which was satisfied by the issue of shares.

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.

14. REMUNERATION REPORT – AUDITED (continued)

Directors' and senior executives' remuneration

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 (d)		Total	% of remuneration performance based	Value of options as % of remuneration
		Cash salary and fees	Non-Monetary Benefits (9)	Total	Super-annuation (10)	Shares	Options			
		$	$	$	$	$	$	$	%	%
Non-executive directors										
Chris Hodge [1] [a]	2014	20,312	5,980	26,292	-	12,900	100,100	139,292	-	71.9
	2013	2,212	700	2,912	-	-	2,937	5,849	-	50.2
Ian Tchacos [2] [b]	2014	12,186	2,310	14,496	-	-	-	14,496	-	-
	2013	-	-	-	-	-		-	-	-
David McArthur [3]	2014	18,796	2,974	21,770	2,021	16,351	100,100	140,242	-	71.4
	2013	4,958	1,699	6,657	917	-	10,537	18,111	-	58.2
Sub-total non-executive directors remuneration	2014	51,294	11,264	62,558	2,021	29,251	200,200	294,030	-	68.1
	2013	7,170	2,399	9,569	917	-	13,474	23,960	-	56.2
Total current directors remuneration	2014	51,294	11,264	62,558	2,021	29,251	200,200	294,030	-	68.1
	2013	7,170	2,399	9,569	917	-	13,474	23,960	-	56.2

[1] Appointed 12 November 2013
[2] Appointed 12 August 2014
[3] Appointed 4 September 2013

14. REMUNERATION REPORT – AUDITED (continued)

Directors' and senior executives' remuneration (continued)

Name		Short-term employee benefits			Post employment benefits	Share based payments				
		Cash salary and fees	Non-Monetary Benefits [9]	Total	Super-annuation [10]	Shares [d]	Options	Total	% of remuneration performance based	Value of options as % of remuneration
		$	$	$	$	$	$	$	%	%
Former directors										
Paul Cartwright [4] [d]	2014	86,389	5,980	92,369	-	96,076	350,350	538,795	-	65.0
	2013	16,667	871	17,538	-	-	20,277	37,815	-	53.6
Gary Jeffery [5] [c]	2014	-	-	-	-	-	-	-	-	-
	2013	92,782	4,341	97,123	-	-	134,077	231,200	-	58.0
Ross Kestel [6]	2014	-	-	-	-	-	-	-	-	-
	2013	19,878	3,512	23,390	1,801	-	5,025	30,216	-	16.6
Andrew Childs [7]	2014	-	-	-	-	-	-	-	-	-
	2013	22,286	3,912	26,198	2,033	-	10,050	38,281	-	26.3
James Brown [8]	2014	-	-	-	-	-	-	-	-	-
	2013	3,458	600	4,058	-	-	-	4,058	-	-
Sub-total former directors	2014	86,389	5,980	92,369	-	96,076	350,350	538,795	-	65.0
	2013	155,071	13,236	168,307	3,834	-	169,429	341,570	-	49.6
Total directors' remuneration	2014	137,683	17,244	154,927	2,021	125,327	550,550	832,825	-	66.1
	2013	162,241	15,635	177,876	4,751	-	182,903	365,530	-	50.0

(4) Appointed 24 October 2013 and resigned 11 August 2014
(5) Resigned 6 November 2013
(6) Resigned 3 September 2013
(7) Appointed 11 February 2013 and resigned 12 November 2013
(8) Resigned 11 February 2013
(9) Comprises Directors and Officers insurance premiums
(10) Where superannuation is not paid, fees are paid to a consultancy company.

14. REMUNERATION REPORT – AUDITED (continued)

Directors' and senior executives' remuneration (continued)

Name		Short-term employee benefits			Post employment benefits	Share based payments (d)		Total	% of remuneration performance based	Value of options as % of remuneration
		Cash salary and fees	Non-Monetary Benefits (9)	Total	Super-annuation (10)	Shares	Options			
		$	$	$	$	$	$	$	%	%
Senior executive										
David McArthur	2014	45,463	2,990	48,453	4,888	15,864	-	69,205	-	-
	2013	40,450	3,512	43,962	4,113	20,888	5,390	74,353	-	7.2
Sub-total senior executive remuneration	2014	45,463	2,990	48,453	4,888	15,864	-	69,205	-	-
	2013	40,450	3,512	43,962	4,113	20,888	5,390	74,353	-	7.2
Total directors and senior executive remuneration	**2014**	**183,146**	**20,234**	**203,380**	**6,909**	**141,191**	**550,550**	**902,030**	**-**	**61.0**
	2013	**202,691**	**19,147**	**221,838**	**8,864**	**20,888**	**188,293**	**439,883**	**-**	**42.8**

14. REMUNERATION REPORT – AUDITED (continued)

Directors' and senior executives' remuneration (continued)

Notes in relation to the table of directors' remuneration

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

(b) directors fees for Ian Tchacos were paid to Lykos Consulting Pty Ltd, a company associated with Ian Tchacos;

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

(d) directors fees for Paul Cartwright were paid to Kingsway Resources Pty Ltd, a company associated with Paul Cartwright. Included in cash salary and fees and share based payments (shares) are termination benefits of $25,000 each paid to Paul Cartwright.

Analysis of bonuses included in remuneration

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

14. REMUNERATION REPORT – AUDITED (continued)

Equity instruments

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

Options and rights over equity instruments granted as compensation

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

Tranche	Number of options granted during 2014	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 2014
Executive directors									
Paul Cartwright [c]	3,500,000	31-Jan-14	3.57	100	-	1-Jan-14	6.0	31-Dec-15	3,500,000
	3,500,000	31-Jan-14	3.32	100	-	1-Jan-14	8.0	31-Dec-15	3,500,000
	3,500,000	31-Jan-14	3.12	100	-	1-Jan-14	10.0	31-Dec-15	3,500,000
Non-executive directors									
Chris Hodge	1,000,000	31-Jan-14	3.57	100	-	1-Jan-14	6.0	31-Dec-15	1,000,000
	1,000,000	31-Jan-14	3.32	100	-	1-Jan-14	8.0	31-Dec-15	1,000,000
	1,000,000	31-Jan-14	3.12	100	-	1-Jan-14	10.0	31-Dec-15	1,000,000
David McArthur	1,000,000	31-Jan-14	3.57	100	-	1-Jan-14	6.0	31-Dec-15	1,000,000
	1,000,000	31-Jan-14	3.32	100	-	1-Jan-14	8.0	31-Dec-15	1,000,000
	1,000,000	31-Jan-14	3.12	100	-	1-Jan-14	10.0	31-Dec-15	1,000,000

(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;

(C) Resigned 11 August 2014.

14. REMUNERATION REPORT – AUDITED (continued)

Equity instruments (continued)

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 2014	Granted as compensation	* Other changes	Exercised	Held at 31 December 2014	Vested during the year	Vested and exercisable at 31 December 2014
Directors							
Chris Hodge [(1)]	-	3,000,000	-	-	3,000,000	3,000,000	3,000,000
Paul Cartwright [(2)]	-	10,500,000	(10,500,000)	-	-	-	-
David McArthur [(3)]	2,250,000	3,000,000		-	5,250,000	3,000,000	5,250,000

	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 [(4)]	2,966,400	10,500,000	(13,466,400)	-	-	-	-
Ross Kestel [(5)]	-	2,250,000	(2,250,000)	-	-	-	-
Andrew Childs [(6)]	-	4,500,000	(4,500,000)	-	-	-	-
David McArthur [(3)]	-	-	2,250,000	-	2,250,000	2,250,000	2,250,000

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

(1) Appointed 12 November 2013
(2) Appointed 24 October 2013 and resigned 11 August 2014
(3) Appointed 4 September 2013
(4) Resigned 6 November 2013
(5) Resigned 3 September 2013
(6) Appointed 11 February 2013 and resigned 12 November 2013

14. REMUNERATION REPORT – AUDITED (continued)

Equity instruments

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 2014	Purchases	* Other changes	Received on exercise of options	Sales	Held at 31 December 2014
Directors						
Chris Hodge[1]	1,359,206	270,000	655,633	-	-	2,284,839
Paul Cartwright [2]	7,455,000	359,277	(7,814,277)	-	-	-
David McArthur [3]	6,127,212	200,000	1,792,118	-	-	8,119,330
Ian Tchacos [4]	-	-	516,467	-	-	516,467
	**** Held at 1 January 2013**	**Purchases**	*** Other changes**	**Received on exercise of options**	**Sales**	**** Held at 31 December 2013**
Directors						
Gary Jeffery [5]	2,336,895	-	(2,336,895)	-	-	-
Andrew Childs [6]	-	1,711,746	(1,711,746)	-	-	-
David McArthur [3]	-	298,382	5,828,830	-	-	6,127,212
Paul Cartwright [2]	-	-	7,455,000	-	-	7,455,000
Chris Hodge [1]	-	-	1,359,206	-	-	1,359,206

* Other changes represent shares held on date of appointment or resignation or issued in lieu of director fees (see note 9) or for acquisition of Bombora.

(1) Appointed 12 November 2013
(2) Appointed 24 October 2013 and resigned 11 August 2014
(3) Appointed 3 September 2013
(4) Appointed 12 August 2014
(5) Resigned 6 November 2013
(6) Appointed 11 February 2012 and resigned 12 November 2013

4,817,171 shares were issued to key management personnel during the reporting period in lieu of director fees in 2014 (2013: 8,921,569 shares).

14. REMUNERATION REPORT – AUDITED (continued)

Equity instruments (continued)

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

Analysis of movements in options
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			
Paul Cartwright	350,350	-	-
Non-executive directors			
Chris Hodge	100,100	-	-
David McArthur	100,100	-	-
Ian Tchacos	-	-	-
Senior executives			
David McArthur	-	-	-

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.

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.

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	
		Note	2014 $	2013 $	2014 $	2013 $
Key management person	***Transaction***					
Chris Hodge	Consultancy fees	(i)	20,250	-	18,837	-
David McArthur	Management fees	(ii)	74,000	25,000	23,100	5,500
Ian Tchacos	Consultancy fees	(iii)	3,338	-	3,701	-
Total and current liabilities					45,638	5,500

14. REMUNERATION REPORT – AUDITED (continued)

Key management personnel and director transactions (continued)

During the year the Group paid:

(i) $20,250 (2013: Nil) to CCH Resources Pty Ltd, a company associated with Mr Hodge, representing consultancy fees for the period 1 January 2014 to 31 December 2014;

(ii) $74,000 (2013: $25,000) to Broadway Management (WA) Pty Ltd, a company associated with Mr McArthur, representing management fees for the period 1 January 2014 to 31 December 2014 (3 September 2013 to 31 December 2013, reflecting the period Mr McArthur was a director of the Company);

(iii) $3,338 (2013: Nil) to Lykos Consulting Pty Ltd, a company associated with Mr Tchacos, representing consultancy fees for the period 1 January 2014 to 31 December 2014.

Voting and comments at the Company's 2014 Annual General Meeting

The Company received more than 98% of "yes" votes on its remuneration report for the 31 December 2013 financial year. The Company did not receive any specific feedback at the annual general meeting or throughout the year on its remuneration practices.

This is the end of the Remuneration Report - Audited.

15. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration forms part of the directors' report for the financial year ended 31 December 2014.

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

CHRIS HODGE
Managing Director

Dated at Perth, Western Australia this 18th day of March 2015.

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 2014 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

KPMG

Grant Robinson

Grant Robinson
Partner

Perth

18 March 2015

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 the Group on behalf of the shareholders by whom they are elected and to whom they are accountable. This statement outlines the main corporate governance practices, which comply with the Australian Securities Exchange (ASX) Corporate Governance Principles and Recommendations unless otherwise stated. All the practices, unless otherwise stated, were in place for the entire reporting period and are current as at the date of this report. The Board has approved the Corporate Governance Statement.

As required under ASX Listing Rule 4.10.3, the Group makes the following disclosures in relation to each of the Recommendations.

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 the Company'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 Board must undertake appropriate checks of all candidates for appointment to the Board. The full Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of shareholders. New Directors must be provided with a letter of appointment which sets out the key terms and conditions of appointment. New Directors must participate in an induction program to enable them to gain an understanding of the Company's strategic, financial, operational and risk management position.

(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 Tchacos 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, their 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);
- Ian Tchacos – 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 ensure 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.

- Ian Tchacos – independent non-executive director (Chair);
- David McArthur – non-executive director.

The committee did not meet during the year.

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;

2. BOARD COMMITTEES (continued)

(c) Remuneration And Nomination Committee (continued)

- 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.

(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.

3. MANAGING BUSINESS RISK (continued)

(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 2014.

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 entity.

(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.

(b) 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 Chairman (or in his place the Managing Director) must also be notified and approve any proposed transaction.

No trading shall take place in the period of 5 business days before the release of quarterly reports or the release of half yearly and annual accounts (closed periods).

There are no exceptional circumstances in which trading may take place during a closed period.

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. 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.

5. DIVERSITY POLICY (continued)

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 75% 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 2014		31 December 2013	
Gender representation	**Women**	**Men**	**Women**	**Men**
Group representation	25%	75%	25%	75%
Senior management representation	0%	100%	0%	100%
Board representation	0%	100%	0%	100%
Corporate services provider representation	75%	25%	80%	20%

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

6. 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 shareholder meetings 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 complete a proxy form or 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.

6. COMMUNICATION WITH SHAREHOLDERS (continued)

(a) Continuous Disclosure (continued)

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 2014

	Note	31 December 2014 $	31 December 2013 $
Assets			
Cash and cash equivalents	14	490,147	258,484
Other receivables	12	45,524	15,566
Prepayments	13	17,524	44,895
Total current assets		553,195	318,945
Exploration and evaluation expenditure	15	897,321	-
Property, plant and equipment	11	10,472	16,360
Other receivables	12	15,000	15,000
Total non-current assets		922,793	31,360
Total assets		1,475,988	350,305
Liabilities			
Trade and other payables	16	111,876	69,398
Employee benefits	17	16,109	8,302
Total current liabilities		127,985	77,700
Site restoration provision	18	63,496	-
Total non-current liabilities		63,496	-
Total liabilities		191,481	77,700
Net assets		1,284,507	272,605
Equity			
Share capital	19	43,571,491	41,586,203
Reserves		662,011	147,054
Retained losses		(42,948,995)	(41,460,652)
Total equity attributable to equity holders of the Company		1,284,507	272,605

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 2014

	Note	2014 $	2013 $
Production revenue		107,877	-
Other income	6	30,919	59,128
Production expense		(69,269)	-
Administrative expenses	6	(1,006,114)	(624,952)
Other expenses	6	(308,787)	(320,235)
Impairment of capitalised exploration expenditure		(55,384)	-
Exploration expenditure – current year		(242,133)	(484,208)
Results from operating activities		(1,542,891)	(1,370,267)
Finance income	7	1,291	1,269
Net finance income		1,291	1,269
Loss before income tax		(1,541,600)	(1,368,998)
Income tax benefit	10	-	-
Loss from continuing operations		(1,541,600)	(1,368,998)
Loss for the year		(1,541,600)	(1,368,998)
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		-	-
Foreign operations – foreign currency translation difference		2,811	-
Gain on acquisition of non-controlling interest		53,257	-
Total items that may be reclassified subsequently to profit or loss		56,068	-
Other comprehensive income for the year, net of income tax		56,068	-
Total comprehensive loss for the year		(1,485,532)	(1,368,998)

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 2014 (continued)

	Note	2014 $	2013 $
Loss attributable to:			
Owners of the Company		(1,541,351)	(1,368,998)
Non-controlling interests		(249)	-
Loss attributable to owners of the Company		(1,541,600)	(1,368,998)
Total comprehensive loss attributable to:			
Owners of the Company		(1,485,283)	(1,368,998)
Non-controlling interests		(249)	-
Total comprehensive loss attributable to owners of the Company		(1,485,532)	(1,368,998)
Loss per share			
Basic and diluted (cents per share)	8	(0.88)	(1.17)

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Attributable to equity holders of the Company					
	Share capital $	Translation reserve $	Options reserve $	Share based payments reserve $	Accumulated losses [1] $	Total $
Balance at 1 January 2014	41,586,203	-	92,050	55,004	(41,460,652)	272,605
Total comprehensive expense for the period						
Loss for the year	-	-	-	-	(1,541,600)	(1,541,600)
Other comprehensive income						
Gain on acquisition of non-controlling interest	-	-	-	-	53,257	53,257
Exchange differences arising on translation of foreign operations	-	2,811	-	-	-	2,811
Total comprehensive income	-	2,811	-	-	53,257	56,068
Total comprehensive loss for the period	-	2,811	-	-	(1,488,343)	(1,485,532)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of 1,571,547 shares at 5.3 cents each in lieu of 50% of directors' fees	83,292	-	-	(55,004)	-	28,288
Issue of 12,892,082 shares at 5.3 cents each in consideration for acquisition of 75.9% of Bombora Energy Pty Ltd	683,280	-	-	-	-	683,280
Placement of 20 million shares at 5 cents each for working capital	1,000,000	-	-	-	-	1,000,000

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2014 (continued)

	Attributable to equity holders of the Company					
	Share capital $	Translation reserve $	Options reserve $	Share based payments reserve $	Accumulated losses (1) $	Total $
Contributions by and distributions to owners (continued)						
Issue of 921,488 shares at 4.2 cents each in lieu of 50% of director fees	38,703	-	-	-	-	38,703
Issue of 4,092,502 shares at 4 cents each in consideration for acquisition of remaining 24.1% of Bombora Energy Pty Ltd	163,700	-	-	-	-	163,700
Issue of 1,428,866 shares at 3.0 cents each in part satisfaction of director fees	42,866	-	-	-	-	42,866
Issue of 895,270 shares at 3.5 cents each in part satisfaction of director fees	31,334	-	-	-	-	31,334
Share-based payment transactions	-	-	567,150	-	-	567,150
Capital raising costs	(57,887)	-	-	-	-	(57,887)
Total contributions by and distributions to owners	1,985,288	-	567,150	(55,004)	-	2,497,434
Total changes in ownership interests in subsidiaries	-	-	-	-	-	-
Total transactions with owners	1,985,288	-	567,150	(55,004)	-	2,497,434
Balance at 31 December 2014	43,571,491	2,811	659,200	-	(42,948,995)	1,284,507

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

		Attributable to equity holders of the Company			
	Note	Share capital $	Equity-based benefits reserve $	Accumulated losses $	Total $
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	9	-	(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.

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 $	2013 $
Cash flows from operating activities			
Cash paid to suppliers and employees		(463,261)	(714,750)
Payments for exploration, evaluation and development		(195,803)	(467,345)
Interest received		1,187	1,269
Net cash used in operating activities	14(b)	(657,877)	(1,180,826)
Cash flows from investing activities			
Payments for capitalised exploration		(55,384)	-
Payment to associate		(19,484)	-
Proceeds from available for sale asset		-	903,466
Acquisition of subsidiary, net of cash		2,430	-
Payments for property, plant and equipment		(2,044)	(1,760)
Net cash from investing activities		(74,482)	901,706
Cash flows from financing activities			
Proceeds from issue of shares and options		1,000,000	548,626
Capital raising costs		(63,388)	(39,841)
Net cash from financing activities		936,612	508,785
Net decrease in cash and cash equivalents		204,253	229,665
Cash and cash equivalents at 1 January		258,484	11,249
Effect of exchange rate fluctuations on cash held		27,410	17,570
Cash and cash equivalents at 31 December	14(a)	490,147	258,484

The notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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 2014 comprise the Company and its subsidiary (together referred to as the "Group" and individually as "Group Entities").

The Group is a for-profit entity and is primarily involved in gas exploration in the United States of America.

2. BASIS OF ACCOUNTING

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 18 March 2015.

Details of the Group's accounting policies, including changes during the year, are included in notes 34 and 35.

(a) Going concern

The consolidated annual financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the settlement of liabilities in the normal course of business. The Group has $490,147 in cash and cash equivalents as at 31 December 2014, a working capital surplus of $425,210 and generated net cash inflows of $204,253 during the year, including funds raised from the placement of 20,000,000 fully paid ordinary shares at 5 cents each. The Group incurred a loss for the period of $1,541,600 (including $297,517 in exploration expenditure expensed or written off in the period). The Group has no debt obligations.

The directors are aware that additional funds will need to be sourced for the Group to continue its business as budgeted including meeting its exploration and development activities. The ability of the Group 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 by additional equity or financing facilities or entering into a farm-out or joint venture arrangement's in relation to its assets.

The timing of raising additional capital will depend on the investment markets, current and future planned exploration and development activities.

Whilst there is significant uncertainty regarding the outcomes of funding alternatives, the Board believes that it will be able to raise further capital or farm-out/joint venture to fund its exploration and development activities. If necessary, the Group has the capacity to delay or cancel a number of expenses that are discretionary in nature, including administrative costs, exploration programs and development expenditure that are not contractually binding.

The financial report does not contain any adjustments to the amounts or classification of recorded assets or liabilities which might be necessary if the Group was not to continue as a going concern.

3. FUNCTIONAL AND PRESENTATION CURRENCY

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

4. 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 prospectively.

(a) Judgements, assumptions and estimation uncertainties

Information about judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2014 are included in the following notes:

(i) Note 2(a) - Going concern

(ii) Note 9 - Share-based payments

(iii) Note 10 - Recognition of tax losses

(iv) Note 11 - Property, plant and equipment

(v) Note 15 - Capitalised exploration and evaluation costs

(vi) Note 17 – Site restoration provision

(b) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurable date. Fair value for measurement and / or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurable date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Further information about the assumptions made in measuring fair values is included in note 21.

5. 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.*

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

	2014 $	2013 $
Profit / (loss) before income tax		
Total loss for reportable segments	(369,139)	(484,208)
Central administration and directors' remuneration	(1,173,752)	(886,059)
Finance income	1,291	1,269
Consolidated loss before income tax	(1,541,600)	(1,368,998)
Assets		
Total assets for reportable segments	928,094	-
Cash and cash equivalents	490,147	258,484
Term deposit	15,000	15,000
Other assets	42,747	76,821
Consolidated total assets	1,475,988	350,305
Liabilities		
Total liabilities for reportable segments	(63,496)	-
Employee entitlements	(16,109)	-
Other liabilities	(111,876)	(77,700)
Consolidated total liabilities	(191,481)	(77,700)

5. OPERATING SEGMENTS (continued)

Geographic information

The Group operates in two principal geographical areas – the USA and Australia. The Group's production revenue and information about its segment assets (non-current assets excluding investments in associates and other financial assets) by geographical location are detailed below:

	2014 $	2013 $
Production revenue		
USA	107,877	-
Non-current assets		
Australia	25,472	31,360
USA	897,321	-
	922,793	31,360

Non-current assets excludes financial instruments, deferred tax assets, construction contracts in progress and employee benefit assets.

6. INCOME AND EXPENSE

Loss before income tax from continuing operations includes the following specific income and expenses.

	Note	2014 $	2013 $
Other income			
Net foreign exchange gains		30,919	59,128
Personnel expenses			
Wages and salaries		22,259	30,688
Directors and executives remuneration	28	902,030	439,882
Employee contributions to defined contribution plans		3,457	3,484
Employee equity-settled share based payments		-	9,500
Fringe benefits tax		1,450	-
Other associated personnel expenses		251	229
		929,447	483,783
Administrative expenses			
Personnel expenses	6	929,447	483,783
Advertising and publicity		5,771	42,574
Communication and information services		11,042	30,310
Motor vehicle expenses		758	269
Office administration		31,235	47,024
Bank charges		1,278	1,595
Share registry and statutory fees		26,583	19,397
		1,006,114	624,952
Other expenses			
Professional fees		190,625	312,734
Depreciation and amortisation		7,932	7,501
Impairment of investment in subsidiary		27,250	-
Impairment of investment in associate		19,484	-
Site restoration expenses		63,496	-
		308,787	320,235

7. FINANCE INCOME AND EXPENSE

Interest income on bank deposits	1,291	1,269
Finance income recognised in consolidated profit or loss	1,291	1,269

8. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share at 31 December 2014 was based on the loss attributable to ordinary shareholders of $1,541,600 (2013: $1,368,998) and a weighted average number of ordinary shares outstanding of 174,835,876 (2013: 117,092,887) calculated as follows:

Loss attributable to ordinary shareholders

	2014 $	2013 $
Loss for the period	(1,541,600)	(1,368,998)

Weighted average number of ordinary shares (basic)

	2014 Number	2013 Number
Issued ordinary shares at 1 January	140,327,429	100,881,350
Effect of shares issued during the period	34,508,447	16,211,537
	174,835,876	117,092,887

(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.

9. SHARE-BASED PAYMENT PLANS

(a) Description of the share-based payment arrangements

At 31 December 2014 the Group has the following share-based payment arrangements:

		$
(i)	Shares issued in lieu of director fees	141,191
(ii)	Options issued to directors, employees and consultants	567,150

9. SHARE-BASED PAYMENT PLANS (continued)

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

(i) Shares issued in lieu of director fees

At the general meeting held on 31 January 2014, shareholders approved the issue of shares to Directors in satisfaction of 50% of director fees.

	Tranche	Value of services rendered (A) $	Fair value of shares at 31 Dec-2013 3.5 cents each (B) $	Market value of shares on issue date (C) $	No. of Plan Shares issued	Date of Issue
Executive directors						
Paul Cartwright	1	15,068	20,277	30,706	579,358	31-Jan-14
	2	25,000	-	25,610	609,756	3-Apr-14
	3	25,000	-	23,649	675,676	2-Jul-14
	4	36,389	-	36,389	1,212,963	25-Aug-14
Chris Hodge	1	2,182	2,937	4,447	83,904	31 Jan-14
	2	4,063	-	4,162	99,085	3-Apr-14
	3	4,063	-	3,843	109,797	2-Jul-14
	4	4,063	-	3,385	112,847	3-Oct-14
Non-executive directors						
David McArthur	1	5,220	10,902	16,509	261,432	31 Jan-14
	2	3,719	-	3,809	90,696	3-Apr-14
	3	4,063	-	3,843	109,797	2-Jul-14
	4	3,710	-	3,092	103,056	3-Oct-14
Senior executives						
David McArthur	1	10,000	20,888	31,630	646,853	31 Jan-14
	2	5,000	-	5,122	121,951	3- Apr-14

(A) Reflects the contractual salary amounts that have been settled by the company in shares

(B) Reflects the estimated fair value of shares to be issued to directors/executives that remained subject to shareholder approval at 31 December 2013

(C) Reflects the market value of shares at the date of issue

The movement between (B) and (C) for tranche 1 has been recorded in the current period as a true up based on fair value of shares at issue date.

Tranche 1 relates to the 3 month periods ended 30 September 2013 and 31 December 2013.

Tranches 2 and 3 relate to the 3 month service periods ended 31 March 2014 and 30 June 2014 respectively.

Tranche 4 relates to the 3 month service period ended 30 September 2014 for Chris Hodge and David McArthur. In the case of Paul Cartwright tranche 4 relates to the period ended 11 August 2014, being the date of Mr Cartwright's resignation, plus 50% of his three months' notice period which was satisfied by the issue of shares.

9. SHARE-BASED PAYMENT PLANS (continued)

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

(ii) Options issued to directors, employees and consultants

At the general meeting held on 31 January 2014 shareholders approved the adoption of an incentive option plan to provide a market linked incentive to the related parties to motivate and reward their performance in their respective roles as directors.

On 31 January 2014 shareholders approved the issue of 16,500,000 options to key management personnel with a calculated value of between 3.12 and 3.57 cents each.

On 31 January 2014 the board resolved to issue 500,000 options to a consultant with a calculated value of 3.32 cents each.

The fair value of each tranche of options is recognised as directors' remuneration or consultants' expenses as all options vested on their grant date.

The amount expensed to profit or loss based on the number and fair values of share options are as follows:

Directors' Remuneration	$550,550
Consultants' Fees	$ 16,600
	$567,150

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.

9. SHARE-BASED PAYMENT PLANS (continued)

(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
6	31 Jan-14	5,500,000	Vested upon granting	31-Dec-15	2 years
7	31 Jan-14	5,500,000	Vested upon granting	31-Dec-15	2 years
8	31 Jan-14	5,500,000	Vested upon granting	31-Dec-15	2 years
9	31-Jan-14	500,000	Vested upon granting	31-Dec-15	2 years
		39,000,000			

9. 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**	**Tranche 6**	**Tranche 7**	**Tranche 8**	**Tranche 9**
Fair value at grant date	0.30 cents	0.21 cents	0.16 cents	1.95 cents	1.9 cents	3.57 cents	3.32 cents	3.12 cents	3.32 cents
Share price	1.2 cents	1.2 cents	1.2 cents	3 cents	3 cents	5.3 cents	5.3 cents	5.3 cents	5.3 cents
Exercise price	4 cents	6 cents	8 cents	5 cents	5 cents	6 cents	8 cents	10 cents	8 cents
Expected volatility	80.38%	80.38%	80.38%	119.46%	116.96%	145.60%	145.60%	145.60%	145.60%
Option life	3 years	3 years	3 years	3.2 years	3.2 years	1.9 years	1.9 years	1.9 years	1.86 years
Vesting period	- years	- years	- years	- years	- years	- years	- years	- years	0.05 years
Risk free rate	2.52%	2.52%	2.52%	2.71%	2.71%	2.66%	2.66%	2.66%	2.66%

9. SHARE-BASED PAYMENT PLANS (continued)

(d) Disclosure of share option programme

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

	Weighted average exercise price 2014	Number of options 2014	Weighted average exercise price 2013	Number of Options 2013
Outstanding at 1 January	$0.06	22,000,000	$0.24	66,667
Granted during the period	$0.08	17,000,000	$0.06	22,000,000
Expired during period	-	-	$0.24	(66,667)
Outstanding at 31 December	$0.07	39,000,000	$0.06	22,000,000
Exercisable at 31 December	$0.07	39,000,000	$0.06	22,000,000

The options outstanding at 31 December 2014 have an exercise price between 4 and 10 cents (2013: between 4 and 8 cents) and a weighted average contractual life of 1.27 years (2013: 2.48 years).

17,000,000 options were granted during the year (2013: 22,000,000 options granted).

No options expired during the year (2013: 66,667 options expired).

(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:

	2014 $	2013 $
Director and senior executives' remuneration	550,550	209,182
Personnel expenses	-	9,500
Consultancy fees	16,600	39,000
	567,150	257,682

10. INCOME TAX EXPENSE

(a) Amounts recognised in profit or loss

	2014 $	2013 $
Current tax benefit		
Current period	(95,533)	(135,884)
Deferred tax benefit		
Origination and reversal of temporary differences	95,533	135,884
Total income tax benefit	-	-

(b) Reconciliation of effective tax rate

	2014 $	2013 $
Loss for the period	(1,541,600)	(1,368,998)
Total income tax benefit	-	-
Loss excluding income tax	(1,541,600)	(1,368,998)
Income tax using the Company's domestic tax rate of 30% (2013: 30%)	(462,480)	(410,700)
Non-deductible expenses	366,258	283,483
Current year tax losses not brought to account	95,533	135,884
Change in unrecognised temporary differences	689	(8,667)
	-	-
Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	1,446,881	1,148,112
Potential tax benefit at 30% (2013: 30%)	434,064	344,434

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits of $434,064 (2013: $344,434) 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.

10. INCOME TAX EXPENSE (continued)

(b) Reconciliation of effective tax rate (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.

(c) Unrecognised deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
	$	$	$	$	$	$
Other receivables	-	-	(31)	-	(31)	-
Black hole deductible costs	9,562	18,724	-	-	9,562	18,724
Trade and other payables	6,930	6,300	-	-	6,930	6,300
Employee benefits	4,833	2,491	-	-	4,833	2,491
Carry forward tax losses	434,064	344,434	-	-	434,064	344,434
	455,389	371,949	(31)	-	455,358	371,949

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.

11. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings $	Computer Equipment $	Software $	Total $
Gross carrying amount				
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
Balance at 1 January 2014	7,496	31,327	-	38,823
Additions	-	1,809	235	2,044
Balance at 31 December 2014	7,496	33,136	235	40,867
Depreciation and impairment losses				
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
Balance at 1 January 2014	4,554	17,909	-	22,463
Depreciation for the year	1,499	6,417	16	7,932
Balance at 31 December 2014	6,053	24,326	16	30,395
Carrying amounts				
Balance at 31 December 2013	2,942	13,418	-	16,360
Balance at 31 December 2014	1,443	8,810	219	10,472

12. OTHER RECEIVABLES

	Note	2014 $	2013 $
ANZ security deposit		15,000	15,000
Bank interest receivable		103	-
Net production revenue receivable		30,773	-
Other receivables		7,387	-
GST and PAYG receivable		7,261	15,566
		60,524	30,566
Current		45,524	15,566
Non-current		15,000	15,000
		60,524	30,566

Information about the Group's exposure to credit and market risks is included in note 21(b).

13. PREPAYMENTS

	2014 $	2013 $
Current		
Insurance	5,655	5,320
Australian Securities Exchange	10,050	5,951
Rent and outgoings	-	4,200
Subscriptions and conference registrations	918	2,174
Exploration cash call	-	27,250
USA accounting and taxation reporting	901	-
	17,524	44,895

14. 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 21.

	2014 $	2013 $
Cash and cash equivalents in the statement of cash flows	490,147	258,484

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

	Note	2014 $	2013 $
Cash flows from operating activities			
Loss for the period		(1,541,600)	(1,368,998)
Adjustments for:			
Capitalised exploration expenditure written off	15	55,384	-
Depreciation	11	7,932	7,501
Equity-settled share based payments		708,341	346,975
Impairment of investment		46,734	-
Provision for site restoration		63,496	-
Net gain on foreign exchange translations		(24,680)	(62,873)
		(684,393)	(1,077,395)
Change in other receivables		(29,858)	960
Change in trade and other payables		47,979	25,622
Change in prepayments		588	(31,363)
Change in provisions and employee benefits	17	7,807	(98,650)
Net cash used in operating activities		(657,877)	(1,180,826)

15. EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

	2014 $	2013 $
Exploration and evaluation phases	897,321	-
Movements in carrying amounts		
Consolidated entity:		
Opening balance	-	-
Additions	952,705	-
Written off	(55,384)	-
Closing balance	897,321	-

The ultimate recovery of capitalised exploration and evaluation expenditure is primarily dependent upon the successful development and commercial exploitation, or alternatively, sale of the areas of interest.

16. TRADE AND OTHER PAYABLES

	2014 $	2013 $
Current		
Trade payables	82,396	30,655
Non-trade payables and accrued expenses	29,480	38,743
	111,876	69,398

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 21.

17. OTHER EMPLOYEE BENEFITS

	2014 $	2013 $
Current		
Liability for superannuation	13,455	3,344
Accrued directors fees to be paid as cash	2,654	4,958
	16,109	8,302

18. SITE RESTORATION PROVISION

	Note	2014 $	2013 $
Site restoration provision		63,496	-
Movements in carrying amounts			
Balance at 1 January		-	-
Provision	*	63,496	-
Balance at 31 December		63,496	-

This provision represents the present value of the rehabilitation costs of the Sacramento Basin onshore California area of interest. The timing of rehabilitation expenditure is dependent on the life of oil field, which may vary in future. The nature of restoration activities includes restoration, reclamation and revegetation of affected areas.

19. CAPITAL AND RESERVES

(a) Share capital

	Ordinary shares			
	Number		Amount	
	2014 shares	2013 shares	2014 $	2013 $
On issue at 1 January	**140,327,429**	**100,881,350**	**41,586,203**	**40,850,828**
Placement of fully paid ordinary shares at 1.686 cents each		11,000,000		185,488
Issue of shares at 1.7 cents each in lieu of director fees		7,009,804	-	119,167
Placement of fully paid ordinary shares at 0.08 cents each		6,250,000		50,000
Issue of shares at 1.76 cents each in lieu of director fees	-	1,911,765	-	33,647
Issue of shares at 2.22 cents each in lieu of consulting fees		1,000,000	-	22,000
Issue of shares at 1.79 cents each in lieu of director fees		1,274,510	-	22,814
Placement of fully paid ordinary shares at 3 cents each		11,000,000		330,000
Issue of shares at 5.3 cents each in lieu of director fees	1,571,547	-	83,292	-
Issue of shares in consideration for acquisition of 75.9% of Bombora Energy	12,892,083	-	683,280	-
Placement of fully paid ordinary shares at 5 cents each	20,000,000	-	1,000,000	-
Issue of shares at 4.2 cents each in lieu of director fees	921,488	-	38,703	-
Issue of shares in consideration for acquisition of 24.1% of Bombora Energy	4,092,502	-	163,700	-
Issue of shares at 3.5 cents each in lieu of director fees	895,270	-	31,334	-
Issue of shares at 3 cents each in lieu of director fees	1,428,866	-	42,866	-
Capital raising costs		-	(57,887)	(27,741)
On issue at 31 December	**182,129,185**	**140,327,429**	**43,571,491**	**41,586,203**

19. CAPITAL AND RESERVES (continued)

(b) 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 9).

(e) Nature and purpose of reserves

Options reserve
The options 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.

Share-based payments reserve
The share-based payments reserve represents the fair value of shares to be issued to directors, consultants and employees. This reserve will be transferred to capital once the shares have been issued.

Translation reserve
Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operations.

20. 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. 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.

The Group entities are not subject to externally imposed capital requirements.

21. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

(a) Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amounts				Fair values			
	Non-current assets	Current assets						
	Other receivables	Other receivables	Cash and cash equivalents	Total	Level 1	Level 2	Level 3	Total
31 December 2014								
Financial assets not measured at fair value								
Cash and cash equivalents	-	-	490,147	490,147	-	-	-	-
Other receivables	15,000	45,524	-	60,524	-	-	-	-
	15,000	45,524	490,147	550,671	-	-	-	-
31 December 2013								
Financial assets not measured at fair value								
Cash and cash equivalents	-	-	258,484	258,484	-	-	-	-
Other receivables	15,000	15,566	30,566	30,566	-	-	-	-
	15,000	15,566	289,050	289,050	-	-	-	-

21. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

(a) Carrying amounts and fair values (continued)

	Carrying amounts			Fair values			
	Non-current liabilities	Current liabilities					
	Trade and other payables	Trade and other payables	Total	Level 1	Level 2	Level 3	Total
31 December 2014							
Financial liabilities not measured at fair value							
Trade and other payables	-	111,876	111,876	-	-	-	-
Employee entitlements	-	16,109	16,109	-	-	-	-
	-	127,985	127,985	-	-	-	-
31 December 2013							
Financial liabilities not measured at fair value							
Trade and other payables	-	69,398	69,398	-	-	-	-
Employee entitlements	-	8,302	8,302	-	-	-	-
	-	77,700	77,700	-	-	-	-

21. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

(b) Financial risk management

Risk management framework

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

(i) credit risk
(ii) liquidity risk
(iii) market risk

The Company's 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.

(i) 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 investments in debt securities. For the Company it arises from receivables due from subsidiaries.

The carrying amount of financial assets represents the maximum credit exposure.

Cash and cash equivalents

The Group held cash and cash equivalents of $490,147 at 31 December 2014 (2013: $258,484). The cash and cash equivalents are held with authorised banking institutions and only with counterparties that have an acceptable credit rating.

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. None of the receivables are past due.

At 31 December 2014, the maximum exposure to credit risk for other receivables by geographic region was as follows:

	Carrying Amount	
	2014	**2013**
Australia	29,751	30,566
USA	30,773	-
	60,524	30,566

21. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Other receivables

At 31 December 2014, the maximum exposure to credit risk for other receivables by type of counterparty was:

	Carrying Amount	
	2014	2013
Authorised banking institutions and government agencies	22,364	30,566
Net production revenue	30,773	-
Office amenities	7,387	-
	60,524	30,566

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.

(ii) 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.

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 2014			
Non-derivative financial liabilities			
Trade and other payables	111,876	111,876	111,876
Employee entitlements	16,109	16,109	16,109
	127,985	127,985	127,985
31 December 2013			
Non-derivative financial liabilities			
Trade and other payables	77,700	(77,700)	(77,700)

21. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

(b) Financial risk management (continued)

(iii) 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

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

Carrying amount	**Assets**		**Liabilities**	
	31 December 2014 $'000	**31 December 2013 $'000**	**31 December 2014 $'000**	**31 December 2013 $'000**
US dollar	499,880	-	-	-

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 2014		**31 December 2013**	
	AUD	**USD**	**AUD**	**USD**
Cash and cash equivalents	21,040	469,107	202,496	55,988
Trade and other receivables	29,751	30,773	30,566	-
Trade and other payables	(111,876)	-	(77,700)	-
Employee entitlements	(16,109)			
Net exposure	(77,194)	499,880	155,362	55,988

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
AUD	**2014**	**2013**	**2014**	**2013**
US Dollar (USD)	0.9142	1.0151	0.8156	0.8873

21. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

(b) Financial risk management (continued)

(iii) Market risk (continued)

Foreign currency sensitivity analysis

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	
	2014	**2013**
If AUD strengthens by 10% (2013: 10%)		
USD	(45,444)	(5,090)
If AUD weakens by 10% (2013: 10%)		
USD	55,542	6,221

There would be no impact on other equity of the Company and the Group.

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.

<u>Exposure to interest rate risk</u>
At the reporting date the interest rate profile of the Group's interest bearing financial instruments was:

	Carrying amount	
	2014	**2013**
	$	**$**
Variable rate instruments		
Financial assets	490,147	258,484

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.

21. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

(b) Financial risk management

(iii) Market risk (continued)

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 2013.

	Profit or loss	
	100bp increase $	**100bp decrease $**
31 December 2014		
Variable rate instruments	5,051	(495)
Cash flow sensitivity	5,051	(495)
31 December 2013		
Variable rate instruments	2,584	(1,518)
Cash flow sensitivity	2,584	(1,518)

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

22. ASSET ACQUISITION

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.

On 31 January 2014 shareholders approved the issue of 12,892,084 fully paid ordinary shares at 5.3 cents each in consideration for acquisition of 75.90% of Bombora and its wholly owned subsidiary Calog LLC incorporated in California.

Xstate recognised 100% of the assets and liabilities of Bombora due to the Company gaining control.

Details of the fair value of the assets and liabilities acquired as at 31 January 2014 are as follows:

	$
Purchase consideration comprises:	
12,892,084 ordinary shares at 5.3 cents each	683,280
Acquisition related costs attributable to assets acquired	-
	683,280
Net assets acquired:	
Cash and cash equivalents	2,429
Other receivables	487
Intangible assets	897,321
	900,237
Non-controlling interest	(216,957)
	683,280

On 10 June 2014 the Company issued a further 4,092,502 fully paid ordinary shares at 4.0 cents each in consideration for the acquisition of the remaining 24.1% of Bombora Energy Pty Ltd. The additional consideration paid to Bombora shareholders effectively represented a reduction in the non-controlling interest previously held in the Company.

As a result of this transaction, the Group de-recognised $216,957 relating to the NCI and recognised a gain of $53,257 in other comprehensive income.

The following table summarises the effect of changes in the Company's ownership interest in Bombora.

	$
Company's ownership interest at 31 January 2014	683,280
Effect of increase	216,957
Company's ownership interest at 10 June 2014	900,237

23. INCORPORATION OF SUBSIDIARY

On 28 January 2014 Xstate (UK) Limited was registered as a private company in England and Wales under the UK Companies Act 2006.

24. DISPOSAL OF SUBSIDIARIES

- The Australian Securities and Investments Commission (ASIC) confirmed deregistration of Xstate Mediterranean Pty Ltd effective 11 June 2014.
- An application to deregister Xstate (UK) Limited was submitted to the Registrar of Companies for England and Wales on 16 June 2014. The company was officially dissolved on 24 February 2015.

25. ASSOCIATES

Details of the Group's material associates at the end of the reporting period are as follows:

Name of associate	Note	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group 2014 %	2013 %
Alamo Creek Oil LLC		Oil & gas exploration	California, USA	25	-
Cal LNG LLC		Oil & gas Exploration	California, USA	18	-

The above associates are accounted for using the equity method in these consolidated financial statements.

	2014 $'000	2013 $'000
Investments in associates	-	-
Reconciliation of movement in investments accounted for using the equity method		
Balance at 1 January	-	-
Additional investment	21,840	-
Provision for impairment of investment	(19,484)	-
Exchange difference	(2,356)	-
Balance at 31 December	-	-

(i) The financial year end date of Alamo Creek Oil LLC is 31 December. This was the reporting date established when that company was incorporated.

25. ASSOCIATES (continued)

(ii) The financial year end date of Cal LNG LLC is 31 December. This was the reporting date established when that company was incorporated on 29 November 2014. Since minimal expenditure has been incurred, CAL LNG LLC has not been included in these financial statements.

(iii) In impairing the investment in Alamo Creek LLC, the directors have considered the following:

- estimate of future cash flows expected to be derived from the associate;
- expectation and possible variation in amount or timing of those cash flows.

Summarised financial information in respect of Alamo Creek Oil LLC is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with AASBs adjusted by the Group for equity accounting purposes.

	2014 $'000	2013 $'000
Financial position		
Current assets	9,631	-
Current liabilities	(9,574)	-
Financial performance		
Loss for the year	86,772	-
Total comprehensive loss for the year	-	-

Reconciliation of the above summarised financial information to the carrying amount of the interest in Alamo Creek Oil LLC recognised in the consolidated financial statements:

	2014 $'000	2013 $'000
Net assets of the associate	57	-
Proportion of the Group's ownership interest in Alamo Creek Oil LLC	25%	-
Carrying amount of the Group's interest in Alamo Creek Oil LLC	-	-

26. COMMITMENTS

	2014 $	2013 $
Office rent		
Less than one year	12,600	12,600

27. CONTINGENCIES

The Group has no contingent assets or liabilities.

28. RELATED PARTIES

(a) Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see note 6) is as follows:

	2014 $	2013 $
Short term employee benefits	178,380	221,837
Post-employment benefits	6,909	8,864
Termination benefits	50,000	-
Share-based payments - shares	116,191	165,632
Share based payments – options	550,550	43,550
	902,030	439,883

(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) 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 the Directors 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.

The aggregate value of transactions and outstanding balances relating to Directors 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	
		Note	2014 $	2013 $	2014 $	2013 $
Key management person	***Transaction***					
Chris Hodge	Consultancy fees	(i)	20,250	-	18,837	-
David McArthur	Management fees	(ii)	74,000	25,000	23,100	5,500
Ian Tchacos	Consultancy fees	(iii)	3,338	-	3,701	-
Total and current liabilities					45,638	5,500

28. RELATED PARTIES

(c) Director transactions (continued)

During the year the Group paid:

(i) $20,250 (2013: Nil) to CCH Resources Pty Ltd, a company associated with Mr Hodge, representing consultancy fees for the period 1 January 2014 to 31 December 2014;

(ii) $74,000 (2013: $25,000) to Broadway Management (WA) Pty Ltd, a company associated with Mr McArthur, representing management fees for the period 1 January 2014 to 31 December 2014 (3 September 2013 to 31 December 2013, reflecting the period Mr McArthur was a director of the Company);

(iii) $3,338 (2013: Nil) to Lykos Consulting Pty Ltd, a company associated with Mr Tchacos, representing consultancy fees for the period 1 January 2014 to 31 December 2014.

(d) Other related parties

Contributions to superannuation funds on behalf of employees are disclosed in note 6.

29. SUBSIDIARIES

Name of subsidiary	Principal activities	Place of incorporation	Financial Year end	2014 %	2013 %
Bombora Energy Pty Ltd	Oil and gas exploration	Australia	31 December	100	-
Calog LLC	Oil and gas exploration	California	31 December	100	-
Xstate Mediterranean Pty Ltd	Oil and gas exploration	Australia	31 December	-	100

30. AUDITORS' REMUNERATION

	2014 $	2013 $
KPMG Australia		
Audit and other assurance services		
Audit and review of financial reports	50,230	32,228
Taxation services		
Taxation compliance services	14,050	12,000
Total remuneration of KPMG Australia	64,280	44,228
TOTAL AUDITORS' REMUNERATION	64,280	44,228

31. PARENT COMPANY DISCLOSURES

As at, and throughout the financial year ended 31 December 2014, the parent entity of the Group was Xstate Resources Limited.

	2014 $	2013 $
Result of the parent entity		
Loss for the period	(1,514,028)	(1,368,998)
Other comprehensive income	-	-
Total comprehensive income for the period	(1,514,028)	(1,368,998)
Financial position of parent entity at year end		
Current assets	549,958	318,945
Total assets	1,447,493	350,305
Current liabilities	127,985	77,700
Total liabilities	191,482	77,700
Total equity of the parent entity comprising of:		
Share capital	43,571,491	41,586,203
Equity-settled benefits reserve	659,200	147,054
Accumulated losses	(42,974,680)	(41,460,652)
Total equity	1,256,011	272,605
Commitments		
Office rent		
Less than one year	12,600	12,600

32. SUBSEQUENT EVENTS

On 9 February 2015, Mr Paul Cartwright and Mr Raymond and Mrs Janice Ronchi, who in aggregate hold more than 5% of the Company, requisitioned a meeting of the Company (pursuant to Section 249D of the Corporations Act) to remove the current directors and appoint Paul Cartwright, Raymond Ronchi and Eddie Smith as Directors of the Company. A notice of meeting was despatched on 24 February 2015 for a meeting to be held on 7 April 2015.

On 24 February 2015, the Registrar of Companies for England and Wales confirmed deregistration of Xstate (UK) Limited.

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.

33. BASIS OF MEASUREMENT

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

34. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Except for the changes below, the Group has consistently applied the accounting policies set out in note 35 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

AASB 1031 *Materiality (December 2013)* and AASB 2013-9 *Amendments to AASB 1031 Part B*

Revised AASB 1031 is an interim standard that cross-references to other Standards and the *Framework for the Preparation and Presentation of Financial Statements* (issued December 2013) that contain guidance on materiality. These changes have no impact on the financial statements.

AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* (Amendments to AASB 132)

AASB 2012-3 address inconsistencies in current practice when applying the offsetting criteria in AASB 132 *Financial Instruments: Presentation.* These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group.

AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*

Narrow-scope amendments to AASB 136 *Impairment of Assets* include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. These amendments have no impact on the Group.

AASB 2014-1 *Amendments to Australian Accounting Standards arising from Annual Improvements 2010-2012 and 2011-2013 Cycles*

The change amends a number of pronouncements as a result of the 2010-2012 and 2011-2013 annual improvements cycles. These changes did not impact the financial statements.

35. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in note 34, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

Certain comparative amounts in the statement of profit or loss and other comprehensive income (OCI) have been reclassified or re-presented, as a result of a change in accounting policy regarding the exploration expenditure no longer being capitalised.

(a) Basis of consolidation

(i) *Subsidiaries*

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant
- activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

35. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

(ii) Associates

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associated is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition charges in the Group's share of net assets of the associates.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Production Revenue

Production revenue is recognised in the financial period during which hydrocarbons are produced provided that prior to the reporting date they are either sold or delivered in the normal course of business in accordance with purchasing agreements.

(c) Finance income

The Group's finance income includes interest income. Interest income on short term borrowings, is recognised in profit or loss using the effective interest method.

(d) Foreign currency translation

The financial report is presented in Australian dollars, which is Xstate Resources Limited's functional and presentation currency.

(i) Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial yearend exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the translation reserve in equity.

The translation reserve is recognised in profit or loss when the foreign operation or net investment in disposed of.

35. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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	2014	2013
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.

(f) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) 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.

35. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Income tax

Income tax expense comprises current and deferred tax. It 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 comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

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:

- temporary differences on 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;
- temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are 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 used. 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.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using the tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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.

(h) Exploration and evaluation assets

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.

Exploration and evaluation costs are written off in the year they are incurred, apart from acquisition costs, which are carried forward where right of tenure of the area of interest is current, and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or where exploration and evaluation activities in the area of interest have not reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Where an area of interest is abandoned, or the Directors decide that it is not commercially viable, any accumulated acquisition costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs are written off to the extent that they will not be recoverable in the future.

35. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) 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.

(j) 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. Non-current assets classified as held for sale are presented separately on the face of the consolidated statement of financial position, in current assets.

(k) Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held to maturity financial assets, loans and receivables and available for sale financial assets

(i) Non-derivative financial assets and financial liabilities – recognition and de-recognition (continued)

The Group initially recognises loans, receivables and deposits on the date when they are originated. All other financial assets are recognised initially on the trade date.

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 in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial 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.

(ii) Non-derivative financial assets – measurement

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.

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.

(iii) Non-derivative financial liabilities - measurement

Non-derivative financial liabilities are initially recognised 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.

35. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

(iv) 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.

(l) Provisions

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. The unwinding of the discount is recognised as a finance cost.

Site Restoration
In accordance with the Group's published environment policy and applicable legal requirements, a provision for site restoration in respect of contaminated and disturbed land, and the related expense, is recognised when the land is contaminated or disturbed.

36. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new accounting standards and interpretations that have recently been issued or amended but are not yet mandatory for annual periods beginning after 1 January 2014, have not been applied in preparing these consolidated financial statements. The Group's assessment of the impact of these new or amended accounting standards and interpretations, most relevant to the Group, are set out below.

Reference	Title	Summary	Application date of standard	Application date for the Group
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions if Interests in Joint Operations	Amends AASB 11 *Joint Arrangements to provide guidance on the accounting for acquisitions of interests in a joint operation where the operation constitutes a business.*	1 January 2016	1 January 2016
AASB 9 AASB 2010-7 AASB 2012-6 AASB 2014-1	Financial Instruments (December 2010) Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures Amendments to Australian Accounting Standards	A revised version of AASB 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over of the existing derecognition requirements from AASB 139 *Financial Instruments: Recognition and Measurement.* The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. This standard supersedes AASB 9 (2009). However, for annual reporting periods beginning before 1 January 2018, an entity may early adopt AASB 9 (December 2009) instead of applying this standard.	1 January 2018	1 January 2018

36. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

Reference	Title	Summary	Application date of standard	Application date for the Group
AASB 2013-9	*Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*	The Standard contains three main parts and makes amendments to a number Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards. Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 *Hedge Accounting* into AASB 9 *Financial Instruments*.	Part A – Already effective Part B - Already effective Part C - reporting periods beginning on or after 1 January 2015	Part A – Already effective Part B – Already effective Part C – period beginning 1 January 2015
AASB 2014-4	*Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*	Amends AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets* to provide additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated.	1 January 2016	1 January 2016
IFRS 15 (not yet adopted by AASB)	Revenue from Contracts with Customers	IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; and replaces: (a) IAS 11 *Construction Contracts* (b) IAS 18 *Revenue* (c) IFRIC 13 *Customer Loyalty Programmes* (d) IFRIC 15 *Agreements for the Construction of Real Estate* (e) IFRIC 18 *Transfers of Assets from Customers* (f) SIC-31 *Revenue—Barter Transactions Involving Advertising Services* The core principle is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	IFRS 15 (not yet adopted by AASB)	IFRS 15 (not yet adopted by AASB)

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 14 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 2014 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) as set out in note 2(a) 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 2014.

3 The directors draw attention to note 2 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 18th day of March 2015.

CHRIS HODGE
Managing 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 2014, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 36 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, 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 2014 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.

Material uncertainty regarding continuation as a going concern

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

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2014. 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 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Grant Robinson

Grant Robinson
Partner

Perth

18 March 2015

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 11 March 2015

Category			Number of Shareholders	Shares held
1	-	1,000	712	82,348
1,001	-	5,000	106	295,945
5,001	-	10,000	74	614,885
10,001	-	100,000	247	10,064,275
100,001	and	over	217	171,071,732
			1,356	182,129,185

(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 1,015.

(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)

(e) 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>	14,728,808

(f) 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.

(g) 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.

(h) 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.

(i) Shareholders

The twenty largest shareholders hold 50.35% of the total issued ordinary shares in the Company as at 11 March 2015.

2. TOP TWENTY SHAREHOLDERS AS AT 11 MARCH 2015

	Name	Ordinary shares Number of Shares	Percentage of issued shares
1	Bond Street Custodians Limited <PNCORK – D00089 A/C>	14,728,808	8.09
2	Suburban Holdings Pty Ltd <The Suburban Super Fund A/C>	8,504,137	4.67
3	Mr Paul Cartwright	7,468,570	4.10
4	Mr Errol Bome & Mrs Melanie Bome <The Bome Super Fund A/C>	7,083,712	3.89
5	Mrs Kerry Martens & Mr Keith Neil Martens <Onslow Super Fund A/C>	6,526,549	3.58
6	Blue Sky International Holdings Inc	5,000,000	2.75
7	Dasmac (WA) Pty Ltd <McArthur Family Super A/C>	4,923,066	2.70
8	Berenes Nominees Pty Ltd <Berenes Super Fund A/C>	4,750,000	2.61
9	Aviemore Capital Pty Ltd	4,200,000	2.31
10	National Nominees Limited	3,590,174	1.97
11	Mr David Maxwell McArthur	3,146,264	1.73
12	Matilda West Pty Ltd <Team B A/C>	3,070,000	1.69
13	Bell Potter Nominees Limited <BB Nominees A/C>	3,000,000	1.65
14	Citicorp Nominees Pty Limited	2,913,954	1.60
15	Mr Raymond Ronchi & Mrs Janice Helen Ronchi <Ronchi Super Fund A/C>	2,400,000	1.32
16	PATA Nominees Pty Ltd <The LMST Masel A/C>	2,288,095	1.26
17	Rock Doc Pty Ltd <The Begg Family A/C>	2,085,733	1.15
18	Humboldt Capital Corporation	2,083,333	1.14
19	Armada Trading Pty Ltd	2,000,000	1.10
20	Mad Dog Engineering Pty Ltd	1,889,971	1.04
		91,652,366	50.35

3. PETROLEUM TENEMENT INTERESTS AT 11 MARCH 2015

Project name	Location	Working interest
Alvares Prospect	Sacramento Basin Onshore Northern California	25%
Dempsey Prospect	Sacramento Basin Onshore Northern California	10%
Arnaudo Prospect	Sacramento Basin Onshore Northern California	10%
California AMI Prospects	Sacramento Basin Onshore Northern California	30%
Rancho-Capay Gas Field	Sacramento Basin Onshore Northern California	10%
Los Medanos Gas Field	Sacramento Basin Onshore Northern California	10%
Porter Ranch Oil Prospect	Santa Maria Basin Onshore Southern California	22.5%
SCU #1-24 Water Disposal Well	San Joaquin Basin Onshore Southern California	13.25%