



XSTATE RESOURCES LIMITED

ABN 96 009 217 154

21 August 2015

Dear Xstate Shareholder

Xstate Resources Limited – Share Purchase Plan

1. Introduction

On behalf of the Directors of Xstate Resources Limited (**Xstate or the Company**), I am pleased to offer Eligible Shareholders (as defined in Section 3 of the enclosed Terms and Conditions) the opportunity to participate in the Xstate Resources Limited Share Purchase Plan (**SPP**).

Pursuant to the SPP, Eligible Shareholders may purchase up to A\$15,000 worth of new fully paid ordinary shares in Xstate (**New Shares**) (subject to any pro-rata scale back) without paying brokerage or other transaction costs. The SPP proceeds will be capped at A\$150,000 (the Directors reserve the right to accept oversubscriptions). A brief snapshot of the SPP is set out below. Full details in relation to the SPP are set out in the enclosed Terms and Conditions and Application Form.

2. Current Activities, Purpose of SPP and Use of Funds

Details of Xstate's current activities are set out in the announcements made by Xstate to the ASX and are available from the ASX, or Xstate's website at www.xstate.com.au.

Xstate announced the SPP on 21 August 2015.

The funds from the SPP will be used to meet costs in relation to the Company's oil and gas interests in California as well pursuing and assessing new venture opportunities which are complimentary with its existing asset position. The Company intends to focus its new venture efforts on conventional producing assets with further development potential in an environment where management believes other companies will continue to shed noncore assets. Funds will also be used for day to day working capital purposes.

3. Summary of Key Details

Key details in relation to the SPP are summarised below:

Offer to Eligible Shareholders only: The offer under the SPP to subscribe for New Shares is only open to Eligible Shareholders (as defined in Section 3 of the enclosed Terms and Conditions):

- who were registered as holders of fully paid ordinary shares in Xstate as at 7.00 pm Sydney time on 20 August 2015; and
- whose registered address is in Australia or New Zealand.

Optional but not transferable: Participation in the SPP is optional, but the right of Eligible Shareholders to participate in the SPP is not transferable.

Issue Price: Eligible Shareholders, irrespective of the size of their shareholding, may subscribe for New Shares at an issue price of A\$0.003 per New Share.

Maximum amount: If you are an Eligible Shareholders, you may apply to purchase a parcel of New Shares from a minimum of A\$1,000 up to a maximum of A\$15,000.

If you have two or more registered holdings of Xstate shares, the total of all your applications must not exceed A\$15,000. Xstate reserves the right to decline applications from multiple registered holdings if the total exceeds A\$15,000, including where those registered holdings are in similar, but not identical names, are held directly or indirectly, or are held alone or with others.

Cap: Xstate intends to raise up to A\$150,000 under the SPP. However, should total demand exceed this amount, the Directors reserve the right to accept oversubscriptions. However, the maximum number of Xstate shares to be issued is limited by the Australian Securities Exchange (**ASX**) Listing Rules to a maximum of 54,938,755 Shares, being 30% of Xstate's share capital.

Xstate may scale back applications in its absolute discretion, so that not more than 30% of that number of Xstate shares already on issue, are issued under the SPP. In the event that Xstate elects to scale back applications, this will be done on a pro-rata basis. Should this occur, you may be allocated New Shares to a value which is less than the parcel for which you applied, and the difference will be refunded to you without interest. Scale back decisions are made by the Board and are final.

Application procedure: The SPP opens on 26 August 2015. To apply for New Shares under the SPP, Eligible Shareholders may either:

- Complete and return their enclosed Application Form in accordance with the details on the form, together with a cheque, bank draft or money order drawn on an Australian bank in Australian dollars; or
- Pay directly via BPAY® on the internet or by telephone (for shareholders with an eligible Australian bank account only).

Application Forms must be received by Xstate share registry, or a BPAY® payment must be received, no later than 5.00 pm Sydney time on Friday 11 September 2015.

Full details of the SPP are set out in the enclosed Terms and Conditions and Application Form.

4. Additional Information

You should be aware that the market price of Xstate shares on ASX may rise and fall between the date of the SPP offer and the date that the New Shares are issued under the SPP. As a result, the market price of the New Shares that you receive may be higher or lower than the issue price of New Shares you applied for under the SPP.

The SPP does not take into account the individual investment objectives, financial situation, tax position or particular needs of each Eligible Shareholder. You should consider seeking independent financial and taxation advice before making a decision as to whether or not to accept the offer.

I encourage you to read and consider the enclosed Terms and Conditions.

If you have any queries, please contact our Company Secretary, David McArthur, on +61 8 9423 3200.

Yours sincerely

Chris Hodge
Managing Director

XSTATE RESOURCES LIMITED

SHARE PURCHASE PLAN TERMS AND CONDITIONS

Xstate Resources Limited (**Xstate or the Company**) would like to offer Eligible Shareholders (as defined in Section 3 below) (**Offer**) the opportunity to participate in the Xstate Resources Share Purchase Plan (**SPP**) and subscribe for new fully paid ordinary shares in Xstate (**New Shares**) on the terms and conditions set out below (**Terms and Conditions**).

1. Class order 09/425 issued by the Australian Securities and Investments Commission

The offer of New Shares under the SPP has been structured to comply with the Australian Securities and Investments Commission Class Order 09/425 (as may be amended from time to time) (**ASIC Class Order 09/425**) to enable the Company to issue fully paid ordinary shares (**Shares**) without a prospectus.

2. Key Dates of the SPP

Event	Date
Record date for determining entitlement	7.00 pm Sydney time Thursday 20 August 2015 (Record Date)
SPP opens	Wednesday 26 August 2015
SPP closes	5.00 pm Sydney time Friday 11 September 2015
Issue of New Shares	Friday 18 September 2015
New Shares issued under the SPP expected to commence trading	Tuesday 22 September 2015
Dispatch of holding statements	Tuesday 22 September 2015
Refund advice (if applicable)	To follow as soon as practical

No late applications will be accepted, however Xstate reserves the right to vary these dates.

3. Who is eligible to participate in the offer?

You are eligible to apply for New Shares under the SPP if:

- your registered address, as recorded in the Company's register of members, is in Australia or New Zealand ; and
- you were registered as a holder of Shares at the Record Date,

(**Eligible Shareholder**) unless such registered shareholder holds Shares on behalf of another person who resides outside Australia or New Zealand. Due to foreign securities laws, it is not practical for shareholders resident in other countries to be offered the opportunity to participate in the SPP.

The Offer to each Eligible Shareholder is made on the same terms and conditions.

The Offer is non-renounceable, i.e. you may not transfer your right to subscribe for New Shares under the Offer to anyone else.

An Offer may, at the discretion of the directors of Xstate (**Directors**), be made under the SPP once a year. The maximum amount which any shareholder may subscribe for in any consecutive 12 month period is A\$15,000. The Directors may also determine in their discretion the minimum amount for participation, the multiple of New Shares to be offered under the SPP and the period the offer is available to Eligible Shareholders.

4. Foreign offer restrictions

This document may not be released or distributed outside Australia and New Zealand.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in any other country. In particular, any securities described in this document have not been, and will not be, registered under the US Securities Act of 1933 (as amended) and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the US Securities Act and applicable US state securities laws.

New Zealand

The New Shares are not being offered or sold to the public within New Zealand, other than to existing shareholders of the Company with registered addresses in New Zealand and to whom the Offer is being made in reliance on the *Securities Act (Overseas Companies) Exemption Notice 2013* (New Zealand).

This document has not been registered, filed with or approved by any New Zealand regulatory authority. This document is not a product disclosure statement under New Zealand law and is not required to, and may not, contain all the information that a product disclosure statement under New Zealand law is required to contain.

5. Is the Offer voluntary?

The Offer is entirely voluntary and is subject to these Terms and Conditions. You do not have to participate if you do not want to.

6. Custodians, trustees and nominees

If you are an Eligible Shareholder and hold Shares as a custodian (as defined in ASIC Class Order 09/425 (refer below) (**Custodian**) or in any more specific ASIC relief granted to Xstate in relation to the SPP), you may apply for up to the maximum of New Shares for each beneficiary for whom you act as custodian provided you annexe to your Application Form a certificate to Xstate (**Custodian Certificate**) with the following information:

- that you held Shares on behalf of one or more other persons who are resident in Australia or New Zealand (each a **Participating Beneficiary**) at the Record Date who have subsequently instructed you to apply for New Shares under the SPP on their behalf;
- the number of Participating Beneficiaries and their names and addresses;
- the number of Shares that you hold on behalf of each Participating Beneficiary;
- the dollar amount of New Shares that each Participating Beneficiary has instructed you, either directly or indirectly through another custodian, to apply for on their behalf;
- that the application price for New Shares applied under the Offer for each Participating Beneficiary for whom you act plus the application price for any other Shares issued to you as custodian for that Participating Beneficiary under any arrangement similar to the SPP in the prior 12 months does not exceed A\$15,000;
- that a copy of the written offer document was given to each beneficiary; and
- where you hold Shares on behalf of a beneficiary indirectly, through one or more interposed custodians, the name and address of each interposed custodian.

For the purposes of ASIC Class Order 09/425 you are a 'custodian' if you are a registered holder that:

- holds an Australian financial services licence that allows you to perform custodian or depositary services or operate IDPS accounts;
- is exempt from holding an Australian financial services licence by virtue of ASIC Class Order [CO 03/184] or by relying on the Australian financial services licence of your master custodian under regulation 7.1.06(k) of the Corporations Regulations 2001;
- is a trustee of a self managed superannuation fund;
- is a trustee of superannuation master trusts;
- is a responsible entity of IDPS-like schemes; or
- is noted on Xstate's register of members as holding the Shares on account of another person.

If you hold Shares as a trustee or nominee for another person or persons but are not a Custodian as defined above, you cannot participate for beneficiaries in the manner described above. In this case, the rules for multiple single holdings (above) apply.

Custodians should request a Custodian Certificate when making an application on behalf of Participating Beneficiaries. To request a Custodian Certificate and if you would like further information on how to apply, you should contact Advanced Share Registry Ltd at any time from 8.30am to 5.00pm (Sydney time) Monday to Friday during the Offer period.

Xstate reserves the right to reject any application for New Shares to the extent it considers that the application (whether alone or in conjunction with other applications) does not comply with these requirements. Xstate reserves the right to reject applications in accordance with these Terms and Conditions.

7. How was the issue price determined?

The issue price for each New Share under the Offer is A\$0.003 (**Issue Price**). This price is a 32% discount to the volume weighted average market price of Shares in the Company sold on the ASX during the previous five trading days ending on the Record Date.

8. Important information on price risk to consider

Before deciding whether to accept the Offer, you should refer to the current Share price, which can be obtained from the financial pages of your daily newspaper, your stockbroker, your financial adviser, or the ASX. Please note that the Share price may rise or fall between the date of this Offer and the date when the New Shares are issued to you under the SPP. This means that the price you pay per New Share under this Offer may be greater than or less than the Share price at the time the New Shares are issued to you pursuant to this Offer.

By making an application under this Offer and applying for New Shares under the SPP, each Eligible Shareholder will be acknowledging that although the issue price is at a discount, New Shares are a speculative investment and the price of Shares on ASX may change between the date of Xstate announcing its intention to make an Offer and the date of issue of New Shares under that Offer and that the value of the Shares received under the SPP may rise or fall accordingly.

In determining whether you wish to participate in this Offer and the extent to which you participate, you should seek your own personal financial and/or taxation advice referable to your own circumstances.

9. How much can you invest in the Offer?

Xstate intends to raise up to A\$150,000 under the SPP. However, should total demand exceed this amount, the Directors reserve the right to accept oversubscriptions or to scale back applications in their absolute discretion. In the event that Xstate elects to scale back applications, this will be done on a pro-rata basis. Should this occur, you may be allocated New Shares to a value which is less than the parcel for which you applied, and the difference will be refunded to you without interest.

If you are an Eligible Shareholder, you can subscribe for New Shares under the SPP from a minimum of A\$1,000 to a maximum of A\$15,000. The A\$15,000 limit applies irrespective of the number of Xstate Shares you hold on the Record Date.

Please note that the maximum of A\$15,000 applies to you even if you receive more than one Offer from the Company. For example, if you are both a sole and a joint shareholder of the Company as at the Record Date, you can only apply for New Shares under the Offer once, either in your capacity as sole shareholder or joint shareholder, not both. It is the responsibility of the applicant to ensure that the aggregate of the application price paid for the New Shares the subject of the application and any other shares and interests in the class applied for by you under the SPP or any similar arrangement in the 12 months prior to the date of submission does not exceed A\$15,000.

No fractions of Shares will be issued. The number of New Shares to be issued to you will be calculated by dividing the aggregate application money that you pay in applying for New Shares by the issue price of A\$0.003, then rounding up to the nearest whole number.

10. Shareholder certification

By submitting a BPAY® payment, or a completed Application Form together with a cheque, bank draft or money order (as applicable), you:

- (a) warrant that you are an Eligible Shareholder and are eligible to participate in the Offer;
- (b) irrevocably and unconditionally agree to the Terms and Conditions and the terms of the Application Form;
- (c) acknowledge that your application will be irrevocable and unconditional;
- (d) subject to Section 6 above, certify and represent to the Company that you have not applied for more than A\$15,000 worth of New Shares;

- (e) subject to Section 6 above, certify that the total application price for the following does not exceed A\$15,000 (irrespective of whether you may have received more than one Offer or received Offers in more than one capacity):
- a. the New Shares the subject of your application under the SPP;
 - b. any other New Shares issued to you under the SPP or any other Shares issued to you under any similar arrangement in the 12 months before the application under the SPP (excluding Shares applied for but not issued);
 - c. any other New Shares which you have instructed a Custodian to acquire on your behalf under the SPP; and
 - d. any other Shares issued to a Custodian under an arrangement similar to the SPP in the 12 months before the application under the SPP as a result of an instruction you have given to a Custodian; and
- (f) agree to be bound by the Company's constitution.

11. Costs of participation

The only cost to you associated with the Offer is the issue price of the number of New Shares you wish to subscribe for. Under the Offer you do not have to pay for brokerage, commission or other transaction costs which would normally apply when you acquire Shares on market.

12. Issue of Shares and variation on number of Shares issued

The New Shares will be issued within 10 Business Days after the closing date.

The Company's share registry, Advanced Share Registry Ltd, will send to you a holding statement in due course.

Without limiting the above, the Company reserves the right to issue fewer New Shares than an Eligible Shareholder applies for under the Offer or no New Shares, in the Company's discretion or if the Company believes the issue of those New Shares would contravene any law or the ASX Listing Rules. No interest will be paid on any money returned.

In the event the Company wishes to issue fewer New Shares than an Eligible Shareholder applies for, or is not permitted to issue all the New Shares offered as a result of any law or ASX Listing Rule, the Company will use its best endeavours to allocate New Shares to those Eligible Shareholders on a pro-rata basis.

13. What rights will the New Shares carry?

Once the New Shares are issued, they will rank equally with existing Shares in the Company from the date of issue and will carry the same voting rights, dividend rights, and entitlements to dividends, rights and bonus issues.

14. Can the Company change the SPP?

The SPP may be changed, suspended or terminated by the Company at any time. If the Company changes, suspends or terminates the SPP, it will advise ASX. The accidental omission to give notice of changes to or suspension or termination of the SPP, or the non-receipt of any such notice, will not invalidate the change, suspension or termination.

Without limiting the above, Xstate may issue to any person fewer New Shares than the person applied for under the SPP if the issue of New Shares applied for would contravene any applicable law or the ASX Listing Rules.

15. Directors' participation

The Directors of the Company, as Eligible Shareholders, may participate in the Offer (without having to obtain shareholder approval), on the same terms as all other shareholders in the Company. The Directors have confirmed their intention to participate in the SPP.

16. How do you pay for the Shares?

All amounts in this Offer are expressed in Australian dollars.

If you would like to participate in the Offer, you can either:

- (a) pay for the New Shares by cheque, bank draft or money order in Australian dollars. Please mark your cheque, bank draft or money order payable to "**Xstate Resources Limited**" and ensure that cheques are crossed "**Not Negotiable**". Receipts for Application Payments will not be issued.

Please post your completed Application Form together with your cheque, bank draft or money order to:

Advanced Share Registry Limited
PO Box 1156
Nedlands WA 6909

OR

- (b) make a payment using BPAY® in accordance with the instructions on the Application Form. If paying via BPAY®, Eligible Shareholder should be aware that their own financial institution may implement earlier cut off times with regards to electronic payment and it is the responsibility of the Eligible Shareholder to ensure that funds are submitted through BPAY® by the date and the time mentioned above. If you elect to pay via BPAY®, you must follow the instructions for BPAY® set out in the Application Form (which includes the Biller Code and your unique Customer Reference Number) and you will not need to return the Application Form.

If paying by BPAY®, please make sure you use the specific Biller Code and unique Customer Reference Number on your Application Form. If you receive more than one personalised Application Form, you will need to complete individual BPAY® transactions using the Customer Reference Number specific to each individual personalised Application Form that you receive. The maximum investment any Eligible Shareholder may apply for will remain A\$15,000 even if the shareholder receives more than one Offer (whether in respect of a joint holding or because the shareholder has more than one holding under a separate account).

Applicants must not forward cash and direct bank transfers are not permitted.

17. Please provide a cheque, bank draft or money order or make the BPAY payment for the exact amount

If you do not provide the exact amount, the Company reserves the right to return your BPAY® payment or your Application Form and cheque, bank draft or money order. If the Company returns your BPAY® payment or Application Form and cheque, bank draft or money order, no New Shares will be issued to you.

You have a choice of 5 tranches of amounts of New Shares of which you may subscribe for one.

There are detailed below:

	Subscription Amount (A\$)	New shares to be issued calculated at the Issue Price
Tranche A	\$1,000 (minimum)	333,334
Tranche B	\$2,000	666,667
Tranche C	\$5,000	1,666,667
Tranche D	\$10,000	3,333,334
Tranche E	\$15,000 (maximum)	5,000,000

Once an application has been made it cannot be revoked. All valid applications shall be deemed accepted if received before the **Closing Date of 5.00 pm Sydney time on 11 September 2015**. If the exact amount of money is not tendered with your application, Xstate reserves the right to either:

- (a) return your Application Form and/or payment and not issue any New Shares to you; or
- (b) issue to you the number of New Shares that would have been issued had you applied for the highest designated amount that is less than the amount of your payment and refund the excess application money to you by cheque as soon as possible, without interest.

18. Will the Shares be quoted on the ASX?

The Company will apply for the New Shares issued to you to be quoted on ASX, within the relevant period specified in the ASX Listing Rules.

19. Shortfall Placement

In the event that less than A\$150,000 is applied for, the full amount of the shortfall may be placed at the discretion of the Board subject to compliance with the necessary legal requirements.

20. How is a dispute resolved?

The Company may settle any difficulties, anomalies or disputes in connection with or by any reason of the operation of the SPP in any manner it thinks fit, whether generally or in relation to any participant, application or New Share. The Company's decision shall be final and binding.

The Company reserves the right to waive strict compliance with any provision of these Terms and Conditions. The powers of Xstate under these conditions may be exercised by the Directors or any delegate of the Directors.

21. Ensure that your completed Application Form and payment reach Advanced Share Registry Limited by the closing date of the Offer, being no later than 5.00 pm Sydney time on Friday 11 September 2015. No late applications will be accepted, although the Directors reserve the right to extend the closing date.

In determining whether you wish to participate in this Offer, you should seek personal financial and/or taxation advice referable to your own circumstances.

By accepting this Offer you agree to be bound by the Terms and Conditions of the Offer and the Constitution of the Company.