



ABN 96 009 217 154

12 April 2016

ASX Release

Electronic lodgement

ASX Code: XST

DISPATCH OF 2015 ANNUAL REPORT AND NOTICE OF AGM

Attached is copy of our 2015 Annual Report together with the Notice of Annual General Meeting, Explanatory Memorandum and Proxy Form which have been dispatched to shareholders.

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

On behalf of the Board of Directors



XSTATE RESOURCES LIMITED

ABN 96 009 217 154

NOTICE OF ANNUAL GENERAL MEETING

PROXY FORM

AND

EXPLANATORY MEMORANDUM

Date of Meeting

13 May 2016

Time of Meeting

11:00 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 shareholders of Xstate Resources Limited ("**Company**") will be held at 11:00 am (WST) on Friday 13 May 2016, at Level 2, 55 Carrington Street, Nedlands, Western Australia.

In order to determine voting entitlements, the register of Shareholders will be closed at 4:00pm (WST) on Wednesday 11 May 2016.

An Explanatory Statement 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

Financial Statements and Reports

To receive and consider the annual financial report for the Company for the financial year ended 31 December 2015 together with the declaration of the directors, the director's report, the Remuneration Report and the auditor's report.

Resolution 1: Adoption of the Remuneration Report

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

"That, for the purposes of section 250R(2) of the Corporations Act and for all other purposes, approval is given for the adoption of the Remuneration Report contained within the Company's annual financial report for the financial year ended 31 December 2015."

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. Less than 25% of shareholder voted against the remuneration report at the 2014 Annual General Meeting.

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:

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

Resolution 2: Re-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 Mr Tchacos, a Director, retires by rotation in accordance with clause 14.6 of the Company’s constitution, ASX Listing Rule 13.2 and for all other purposes, and being eligible is re-elected as a Director.”

Resolution 3: Election of Director- Cosimo Damiano

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

“That Mr Cosimo Damiano, a Director, who having been appointed a director since the last AGM, retires in accordance with clause 13.4 of the Company’s constitution, ASX Listing Rule 14.4 and for all other purposes, and being eligible is re-elected as a Director.”

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

By Order of the Board



D M McARTHUR
Company Secretary
Dated: 31 March 2016

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 4:00pm (WST) on Wednesday 11 May 2016 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.

VOTING IN PERSON

To vote in person, attend the Meeting at the time, date and place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- (a) each Shareholder has a right to appoint a proxy;
- (b) the proxy need not be a member of the Company; and
- (c) a Shareholder who is 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. If the member appoints two proxies and the appointment does not specify the proportion or number of the member’s votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one- 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, Mr 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 STATEMENT

This Explanatory Statement 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 Statement 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 of the Company for the financial year ended 31 December 2015, together with the declaration of the Directors, the Directors' report, the Remuneration Report and the auditor's report.

A copy of the Company's 2015 Annual Report is available on the Company's ASX platform (ASX: XST) and on the website www.xstate.com.au. Alternatively, a hard copy will be made available upon request.

The Company's auditor, Ernst and Young, 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.

RESOLUTION 1: Adoption of 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 a financial year.

The chair of the meeting must allow a reasonable opportunity for its shareholders to ask questions about or make comments on the Remuneration Report at the Annual General Meeting.

Voting consequences

Under changes to the Corporations Act which came into effect on 1 July 2011, a company is required to put to its shareholders a resolution proposing the calling of another meeting of shareholders to consider the appointment of directors of the company (Spill Resolution) if, at consecutive annual general meetings, at least 25% of the votes cast on a remuneration report resolution are voted against adoption of the remuneration report and at the first of those annual general meetings a Spill Resolution was not put to vote. If required, the Spill Resolution must be put to vote at the second of those annual general meetings.

If more than 50% of votes cast are in favour of the Spill Resolution, the company must convene a shareholder meeting (Spill Meeting) within 90 days of the second annual general meeting.

All of the directors of the company who were in office when the directors' report (as included in the company's annual financial report for the most recent financial year) was approved, other than the managing director of the company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting.

Following the Spill Meeting those persons whose election or re-election as directors of the company is approved will be the directors of the company.

Previous voting results

At the Company's previous annual general meeting, the votes cast against the remuneration report considered at that annual general meeting were less than 25%. Accordingly, the Spill Resolution is not relevant for this 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 voted and will not be counted in calculating the required majority if a poll is called on this Resolution.

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

If you elect to appoint the Chair where he/ she is also a member of the Key Management Personnel whose remunerations details are included in the Remuneration Report, or a Closely Related Party of such a member, ***you must direct the Chair how they are to vote***. Undirected proxies granted to these persons will be voted in favour of all Resolutions.

(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. Undirected proxies granted to these persons will be voted at their discretion.

RESOLUTION 2: Re-election of Director – Mr Ian Tchacos

ASX Listing Rule 14.4 provides that a director of an entity must not hold office (without re-election) past the third annual general meeting following the director's appointment or 3 years, whichever is longer.

Clause 14.4 of the Company's Constitution requires that at every Annual General Meeting of the Company one-third of the Directors (rounded up to the nearest whole number) shall retire from office. The Directors to retire are those who have been longest in office since their last election. A Director who retires by rotation under clause 7.3(a) is eligible for re-election.

The Company currently has 4 Directors and accordingly 1 must retire.

Mr Ian Tchacos, the Director longest in office since his last election, retires by rotation and seeks re-election as a Director.

Information about Mr Tchacos is set out in the Company's 2015 Annual Report.

The Board unanimously supports the re-election of Mr Tchacos.

RESOLUTION 3: Re-election of Director – Mr Cosimo Damiano

ASX Listing Rule 14.4 provides that a director elected since the last AGM of the Company must retire and seek re election at the next AGM of the Company.

Clause 14.5 of the Company's Constitution also requires that any Director appointed since the last AGM retire and seek re election at the next AGM.

As Mr Damiano was appointed to the Board on 29 October 2015, which was after the last AGM, he retires and seeks re election.

Information about Mr Damiano is set out in the Company's 2015 Annual Report.

The Board unanimously supports the re-election of Mr Damiano.

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 \$0.71 million.

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: SGC)

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 4 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"		<u>DILUTION</u>		
		\$0.015 50% decrease in Issue Price	\$0.03 Issue price	\$0.06 100% increase in Issue Price
Current Variable A 238,061,695 Shares	10% Voting Dilution	23,806,169 Shares	23,806,169 Shares	23,806,169 Shares
	Funds Raised	\$35,709	\$71,418	\$142,837
50% Increase in Current Variable A 357,092,542 Shares	10% Voting Dilution	35,709,254 Shares	35,709,254 Shares	35,709,254 Shares
	Funds Raised	\$53,563	\$107,126	\$214,252
100% Increase in Current Variable A 714,185,085 Shares	10% Voting Dilution	71,418,508 Shares	71,418,508 Shares	71,418,508 Shares
	Funds Raised	\$107,126	\$214,252	\$428,508

- * 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:

- The current shares on issue are the Shares on issue as at 18 March 2016.
- No options are exercised into Shares before the date of issue of the Equity Securities.
- 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%.
- The issue price set out above is the closing price of the Shares on the ASX on 18 March 2016.
- 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 assets and general working capital; or
- (ii) as non-cash consideration for the acquisition of new resources, assets and investments in which circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3.

The Company will comply with the disclosure obligations under Listing Rules 7.1A(4) and 3.10.5A upon issue of any Equity Securities.

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

The Company's allocation policy for the issue of Equity Securities under the 10% Placement Capacity will be dependent on the prevailing market conditions at the time of the proposed placement(s).

The recipients of the Equity Securities to be issued under the 10% Placement Capacity have not yet been determined. However, the recipients 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 recipients 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;
- (iii) 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).

Further, if the Company is successful in acquiring new resources, assets or investments, it is likely that the recipients under the 10% Placement Capacity will be vendors of the new resources, assets or investments.

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

The Company obtained approval under Listing Rule 7.1A on 27 May 2015. 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 54,932,510 ordinary shares have been issued representing 24.73% 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:	15/09/15
Number issued:	54,932,510
Class:	Fully paid ordinary
Terms:	Share Purchase Plan
Name of applicants:	Existing shareholders
Price:	0.003 cents per share
Discount to market:	32%
Total cash received:	\$ 164,797
Intended use of cash	Working capital to fund Dempsey conventional gas project. No funds remaining from this issue.

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

10% Placement Capacity has the meaning given in Resolution 4 of the Explanatory Statement.

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.

Eligible Entity means an entity that, at the date of the relevant 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.

Equity Securities includes a Share, a right to a Share or Option, an Option, a convertible security and any security that ASX decides to classify as an Equity Security.

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.

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

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 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

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 General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.
3. **(Proxy vote if appointment specifies way to vote):** Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does:**
 - (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed);
 - (b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands;
 - (c) if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
 - (d) if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).
4. **(Transfer of non-chair proxy to chair in certain circumstances):** Section 250BC of the Corporations Act provides that, if:
 - (a) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members;
 - (b) the appointed proxy is not the chair of the meeting;
 - (c) at the meeting, a poll is duly demanded on the resolution; and
 - (d) either of the following applies:
 - (i) the proxy is not recorded as attending the meeting;
 - (ii) the proxy does not vote on the resolution,

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

5. **(Signing Instructions):**
 - (a) **(Individual):** Where the holding is in one name, the member must sign.
 - (b) **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.
 - (c) **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
 - (d) **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.

6. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the General Meeting.
7. **(Voting in person):**
 - (a) A Shareholder that is an individual may attend and vote in person at the Meeting. If you wish to attend the Meeting, please bring the attached proxy form to the Meeting to assist in registering your attendance and number of votes. Please arrive 15 minutes prior to the start of the Meeting to facilitate this registration process.
 - (b) A Shareholder that is a corporation may appoint an individual to act as its representative to vote at the Meeting in accordance with Section 250D of the Corporations Act. The appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the Certificate is enclosed with this Notice of Meeting
8. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return the Proxy Form (and any Power of Attorney under which it is signed):
 - (a) In person to 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 david.mcarthur@broadwaymgt.com.au

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

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 an annual general meeting of the members of Xstate Resources Limited to be held on Friday 13 May 2016 commencing at 11.00 am (WST) and at any adjournments of that general meeting.

DATED

Please sign here

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

.....
Signed by authorised representative

.....
Signed by authorised representative

.....
Name of authorised representative (print)

.....
Name of authorised representative (print)

.....
Position of authorised representative (print)

.....
Position of authorised representative (print)

Instructions for Completion

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

PROXY FORM

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 (**Please note:** Leave blank if you have selected the Chair of the Annual General Meeting as your proxy.)

OR

the Chair of the Annual General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the General Meeting, or the Chair's nominee, to vote in accordance with the following directions or if no directions have been as the proxy sees fit, at the Annual General Meeting to be held at 11.00 am (WST) on Friday 13 May 2016 at Level 2, 55 Carrington Street, Nedlands, 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
Resolution 1- Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2- Re-Election of Director- Ian Tchacos	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3- Re-election of Director- Cosimo Damiano	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4- Approval of 10% placement capacity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

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

Signature of Member(s) _____ Date: _____

Individual or Member 1

Sole Director/Company Secretary

Member 2

Director

Member 3

Director/Company Secretary

Contact Name: _____ Contact Ph (daytime): _____ Date: _____



XSTATE RESOURCES LIMITED

ABN 96 009 217 154

ANNUAL FINANCIAL REPORT

For the year ended 31 December 2015

XSTATE RESOURCES LIMITED
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CORPORATE DIRECTORY

Directors

Mr Chris Hodge
Mr Ian Tchacos
Mr David McArthur
Mr Cosimo Damiano

Secretary

Mr David McArthur

Registered and Principal Office

Level 2, 55 Carrington Street
Nedlands WA 6009

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

Postal Address

PO Box 985
Nedlands WA 6909

Auditors

KPMG
Level 8, 235 St George's Terrace
Perth WA 6000

Bankers

ANZ Banking Group Limited
Level 6, 77 St Georges Terrace
Perth WA 6000

Share Registry

Advanced Share Registry Services
110 Stirling Highway
Nedlands WA 6009

ASX Code

Shares: XST

Legal Form of Entity

Public Company

Country of Incorporation and Domicile

Australia

XSTATE RESOURCES LIMITED
REVIEW OF OPERATIONS
For the year ended 31 December 2015

REVIEW OF OPERATIONS

Overview

2015 has been particularly tough year to be in the oil and gas industry due to the price of oil falling steeply from over US\$100 per barrel to its current level of US\$35.

The industry in general has responded by cutting costs across several areas of the business – in particular by severely curtailing exploration activity and by selling or relinquishing high cost / low or loss making assets.

Xstate has been directly affected by the downturn primarily because as yet it has been unable to finalise farmout of its high impact appraisal and exploration assets in the Sacramento Basin despite ongoing strong “technical “ interest from a variety of companies.

Company Strategy

Xstate currently has a solid base from which to build a successful E&P company onshore in the USA. Accordingly the company is focussed on longer term strategic value creation than short-term activity.

Specifically, the company’s strategy is as follows:

- to secure a suitable farminee(s) to drill or otherwise evaluate its existing high impact multi-TCF appraisal and exploration assets in the Sacramento Basin
- to continue to screen and pursue the acquisition of low risk production assets in multiple proven hydrocarbon basins
- to build a production portfolio with diversity, materiality and follow-up potential focused on low risk conventional production enhancement and development drilling
- to prudently manage cash in order to keep operating and administrative costs to a minimum

Production

Sacramento Basin: 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 these minor gas production rights in the Sacramento Basin onshore California in 2013. The purpose of the acquisition was to acquire the leases for further, generally deeper, exploration and to access an extensive 3D seismic database from which to generate new exploration opportunities.

Production for the year was as follows:

Production	2015	2014
Gross mcf (Thousand Cubic Feet of Gas)	163,322	200,487
Net XST mcf (after royalty)	10,713	13,639

Exploration

At the start of the year, Xstate held gas leases over several multi-TCF scale and smaller sized gas prospects and leads in the Sacramento Basin. In addition, it held leases covering oil prospects in the Santa Maria basin.

During the course of the year the portfolio has been carefully and selectively rationalised by not renewing leases covering the smaller gas prospects and similarly by not renewing leases over the oil prospects with poor risked economics. This approach is consistent with Xstate’s strategy to keep costs to a minimum.

Should economic conditions improve, Xstate anticipates being able to renew prior leases or to acquire new leases should they be technically and commercially justified.

**XSTATE RESOURCES LIMITED
REVIEW OF OPERATIONS**

For the year ended 31 December 2015

Exploration (continued)

Sacramento Basin: Dempsey Conventional Gas Prospect (XST 10% WI)

The Dempsey prospect remains the current focus of the Joint Venture's plans – primarily because of the potential for near term production located as it is beneath Xstate's existing production facilities. Dempsey's proposed drilling depth is 3,200m and is estimated to cost between US\$4.5M and US\$5.3M to drill (100% cost). The total (100%) unrisks recoverable prospective resource from 7 interpreted reservoir zones, on a best estimate deterministic basis, is approximately 1TCF.

Sacramento Basin: Alvares Conventional Gas Prospect (XST 25% WI)

The Alvares gas appraisal prospect involves the appraisal drilling of a large anticline originally drilled in 1982 and which had extensive gas shows and flowed gas to surface. It contains a total (100%) unrisks recoverable prospective resource on a best estimate deterministic basis of 2.4TCF. The Joint Venture is currently investigating the feasibility to re-enter the existing well bore to conduct a series of flow tests which may be a low cost option to validate the productivity of gas sands identified in the original discovery well but not tested. If successful it may be possible to complete and produce gas from the well.

Santa Maria Basin: Porter Ranch Oil Prospect (XST 22.5% WI)

As outlined above, on the basis that these oil prospects have very poor risk economics in the current low oil price environment, it has been decided not to renew the leases.

Project Review

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

This project will also be discontinued and the SCU #1-24 properly well abandoned following the imposition of stringent new licensing conditions imposed by the State.

Corporate Summary

Despite having a balance sheet that shows a net liability as a result of the policy of writing off all exploration expenditure rather than capitalising it to the balance sheet, the directors of Xstate Resources believe the Company is well positioned to deliver significant shareholder value on the back of its plans to pursue its revised strategy of adding low operating cost conventional oil and gas production as well as undeveloped reserves to the Company's portfolio. The Company intends to target assets where undeveloped reserves upside exists which could be accessed in the event of a rising oil or gas price. It is intended that such lower risk production assets will compliment Xstate's existing high impact appraisal and exploration portfolio in the Sacramento basin.

XSTATE RESOURCES LIMITED REVIEW OF OPERATIONS

For the year ended 31 December 2015

Financial results and condition

The loss for the financial year ended 31 December 2015 attributable to members of Xstate Resources Limited after income tax was \$1,527,322 (2014: loss of \$1,541,600). This was after capitalised exploration expenditure impaired of \$897,321.

The Group has a working capital deficit of \$55,383 (2014: surplus \$425,210) and net cash outflows of \$466,445 (2014: inflow \$204,253).

The Company remains acutely aware of the current economic climate and continues to implement cost-reduction measures across the business. In addition, Mr McArthur has agreed to provide the Company with a \$50,000 line of credit facility until funds are raised.

Summary of results

	2015	2014
	\$	\$
Revenue from ordinary activities	3,850	1,291
Other income	73,780	138,796
Loss before income tax	(1,526,259)	(1,541,600)
Income tax expense	(1,063)	-
Loss attributable to owners of Xstate Resources	(1,527,322)	(1,541,600)
Other comprehensive (loss) / income	(2,703)	56,068
Underlying loss per share (cents)	(0.77)	(0.88)
Shares in issue at reporting date	238,061,695	182,129,185
Weighted average number of shares	199,040,722	174,835,876

Planned Activity - 2016

The Company will seek to implement the growth strategies as outlined in the review of operations above.

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.

**XSTATE RESOURCES LIMITED
DIRECTORS' REPORT**

For the year ended 31 December 2015

DIRECTORS' REPORT

The Directors present their report together with the financial statements of Xstate Resources Limited (the Company) and of the Group, being the Company and its subsidiaries for the financial year ended 31 December 2015 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 and independence status	Experience, qualifications, special responsibilities and other directorships
<p>Chris Hodge Managing Director</p> <p>Appointed: 12 November 2013</p> <p><u>Appointed positions:</u> Non-executive Director on 12 November 2013; Managing Director on 12 August 2014</p>	<p>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.</p> <p>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.</p> <p>Mr Hodge was Managing Director of ASX-listed Adelphi Energy until 2010 and is currently the Exploration and Production Advisor to Mitsubishi in Australia.</p> <p>Mr Hodge is a Non-executive Director of Roc Oil Company Limited.</p>
<p>Cosimo Damiano Executive Director</p> <p>Appointed: 27 October 2015</p>	<p>Mr Damiano provides to Xstate extensive commercial and finance experience and asset familiarity on the ground in Xstate's core areas of interest in the USA.</p> <p>Mr. Damiano's experience involves the strategic analysis and financial modelling of oil & gas companies for global investment banks and energy commodity trading companies in a principal investment role. This experience has provided Mr. Damiano with a strong commercial understanding and analytical analysis of financing oil and gas assets across various geographic and fiscal regimes.</p> <p>Mr Damiano has extensive experience in North America, representing the Mercuria Group as a Director of Upstream Investments and represented Mercuria's Board interests in the company's oil and gas investments throughout North America located in California and North Dakota.</p>

XSTATE RESOURCES LIMITED
DIRECTORS' REPORT
For the year ended 31 December 2015

1. DIRECTORS (continued)

Name and independence status	Experience, qualifications, special responsibilities and other directorships
<p>David McArthur Non-executive Director</p> <p>Appointed: 3 September 2013</p>	<p>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.</p> <p>Mr McArthur has a Bachelor of Commerce Degree from the University of Western Australia.</p> <p>Mr McArthur has substantial experience in capital raisings, company re-organisations and restructuring, mergers and takeovers, and asset acquisitions by public companies.</p> <p>Mr McArthur is an Executive Director of Lodestar Minerals Limited and a Non-executive Director of Renewable Heat & Power Limited. He was an Executive Director of Bullabulling Gold Limited from 15 September 2011 until 2 July 2012.</p> <p>Mr McArthur is Chair of the Audit and Risk Management Committee and is a member of the Nominations and Remuneration Committee.</p>
<p>Ian Tchacos Non-executive Director</p> <p>Appointed: 12 August 2014</p>	<p>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.</p> <p>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.</p> <p>Mr Tchacos is a Non-executive Director of ADX Energy Limited and Riedel Resources Limited.</p> <p>Mr Tchacos is a member of the Audit and Risk Management Committee and is Chair of the Nominations and Remuneration Committee.</p>

2. COMPANY SECRETARY

Mr David McArthur was appointed to the position of Company Secretary on 29 October 1999.

Mr McArthur is a Chartered Accountant, and has over 30 years experience in the corporate management of publicly listed companies.

**XSTATE RESOURCES LIMITED
DIRECTORS' REPORT**

For the year ended 31 December 2015

3. DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held during the year ended 31 December 2015, and the number of meetings attended by each director was:

Director	Full meetings of directors		Meetings of audit and risk management committee	
	No. of meetings attended	No. of meetings held whilst a director	No. of meetings attended	No. of meetings held whilst a director
Chris Hodge	7	7	-	-
Cosimo Damiano	1	1	-	-
David McArthur	7	7	2	2
Ian Tchacos	7	7	2	2

4. PRINCIPAL ACTIVITIES

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

5. OPERATING AND FINANCIAL REVIEW

Information on the operations and financial position of the Group and its strategies and prospects is set out in the Review of Operations at the beginning of this Annual Report.

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, other than those matters referred to in the overview above.

6. DIVIDENDS

The directors recommend that no dividend be provided for the year ended 31 December 2015 (2014: Nil).

7. LIKELY DEVELOPMENTS

The Group will continue to pursue its strategy to further develop its exploration portfolio in California, USA.

8. EVENTS SUBSEQUENT TO REPORTING DATE

Other than the matters disclosed in note 6.7 of the notes to the consolidated financial statements, there have been no matters or circumstances that have arisen since the end of the financial year 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.

**XSTATE RESOURCES LIMITED
DIRECTORS' REPORT**

For the year ended 31 December 2015

9. ENVIRONMENTAL REGULATION

The Group is subject to significant environmental regulation in relation to its exploration activities. It 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. SHARE OPTIONS

Unissued shares under options

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

Expiry date	Exercise price cents	Number of shares
31-May-16	4	6,500,000
31-May-16	6	6,500,000
31-May-16	8	6,500,000
31-Dec-16	5	2,500,000
		<hr/>
		22,000,000

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 in relation to the 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.

Options expired

17,000,000 options expired during the reporting period (31 December 2014: no options expired).

11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the Company paid an insurance premium of \$20,548 (2014: \$20,234) to insure the directors and key management of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any 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 Group. 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 and the company secretary of the Company and its controlled entity, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and company secretary of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

**XSTATE RESOURCES LIMITED
DIRECTORS' REPORT**

For the year ended 31 December 2015

11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS (continued)

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

12. NON-AUDIT SERVICES

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's 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 Australia, and its related practices for non-audit services provided during the year are set out below:

	2015	2014
	\$	\$
Taxation services		
<i>KPMG Australia</i>		
Tax compliance services	-	14,050
Total remuneration for non-audit services	-	14,050

13. PROCEEDINGS ON BEHALF OF THE GROUP

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

**XSTATE RESOURCES LIMITED
DIRECTORS' REPORT**

For the year ended 31 December 2015

14. REMUNERATION REPORT - AUDITED

The Directors present the Company's 2015 Remuneration Report prepared in accordance with the Corporations Act 2001. The Report sets out the detailed remuneration information for Non-executive Directors, Executive directors and other Key Management Personnel (KMP) of the Group.

The report contains the following sections:

- (a) Remuneration governance
- (b) Executive remuneration strategy and framework
- (c) Service contracts
- (d) Non-executive director remuneration
- (e) Key management personnel remuneration
- (f) Other KMP disclosures
- (g) Voting and comments made at the Company's 2014 Annual General Meeting

(a) Remuneration governance

The remuneration of directors and key management is the responsibility of the Remuneration and Nomination Committee.

(b) Executive remuneration strategy and framework

Remuneration is referred to as compensation throughout this report.

Compensation levels for key management personnel of the Group are set to attract, retain and motivate appropriately qualified and experienced Directors and Executives. As the Group's principal activities during the year were new ventures and exploration / evaluation, measurement of remuneration policies against financial performance is not considered relevant. The measurement of remuneration policies considered a range of factors including budget performance, delivery of results and timely completion of development programmes.

The objective of the Group's reward framework is to ensure that remuneration policies and structures are fair and competitive. The Board ensures that remuneration satisfies the following criteria for reward:

- competitiveness and reasonableness;
- transparency;
- attracts and retains high calibre executives; and
- rewards capability and experience.

Executive remuneration mix

The remuneration of the Managing Director and other KMP can be structured as a mix of fixed remuneration and variable "at risk" remuneration through short-term and long-term incentive components.

Fixed compensation

Fixed compensation consists of base compensation plus employer contributions to superannuation funds (unless otherwise stated). Compensation levels are reviewed annually by the Board through a process that considers individual and overall performance of the Group, and compares compensation to ensure it is comparable and competitive within the market in which the Group operates.

Fixed compensation is not "at risk" but is appropriately benchmarked and set with reference to role, responsibilities, skills and experience.

Performance-linked compensation

Performance-linked compensation can consist of both short-term and longer-term remuneration. Performance-linked remuneration is not based on specific financial indicators such as earnings or dividends as the Group is at the exploration and development stage. Vesting of long term incentives is based on the share price performance of the Group, which is considered an appropriate measure of the outcome of overall performance. There is no separate profit-share plan.

**XSTATE RESOURCES LIMITED
DIRECTORS' REPORT**

For the year ended 31 December 2015

14. REMUNERATION REPORT – AUDITED (continued)

(b) Executive remuneration strategy and framework (continued)

Short-term incentive

Short term incentives (STI) reward employees for their individual achievements and contributions to business success and organisation outcomes during the financial year. STI's are a variable reward and are not guaranteed.

Each year, the Board considers the appropriate targets and Key Performance Indicators (KPI's) to link the STI and the level of payout if targets are met. This includes capping the maximum payout under the STI scheme and determining the minimum levels of performance to trigger payment of the STI's. Depending upon the level of management, KPI's include the following:

- satisfactory completion of development programs, on time and on budget;
- securing funding to support planned work programs;
- investor relations; and
- consideration of safety performance, corporate governance, external relations and general management.

At this stage, the Company does not award any STI's.

Long-term incentive

Long-term incentives (LTI) can comprise share options and/or performance rights (PR), which are granted from time to time to encourage sustained performance in the realisation of strategic outcomes and growth in shareholder value. Options and rights are granted for no consideration and do not carry voting rights or dividend entitlements.

The Company adopted an Employee Share Options Scheme (ESOS) effective 31 January 2014. Under the ESOS, the Company may grant options to Company eligible employees to motivate and reward their performance in their respective roles up to a maximum of 10% of the Company's total issued ordinary shares at the date of the grant. The fair value of share options granted is estimated using the Black-Scholes Simulation model.

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	2015	2014	2013	2012 Restated	2011 Restated
Net loss attributable to equity holders (\$)	(1,530,025)	(1,485,283)	(1,368,998)	(2,562,319)	(3,131,774)
Basic EPS (cents)	(0.77)	(0.88)	(1.17)	(2.54)	(4.02)
Share price at year end (cents)	0.5	1.0	3.5	1.5	7.0
Market capitalisation (\$)	1,190,308	1,821,292	4,911,460	1,513,220	7,061,695
Net tangible (liabilities) / assets (NTA) (\$)	(79,484)	387,186	272,605	759,174	1,424,211
NTA Backing (cents)	(0.03)	0.21	0.19	0.75	1.41

During the financial years noted above, there were no dividends paid or other returns of capital made by the Company to shareholders. The Group's financial performance is impacted by a number of factors.

As the Group is still in the exploration phase of its operations, and as such does not generate revenue, the share price and thus the Company's market capitalisation is the only indicator of the Group's overall performance.

**XSTATE RESOURCES LIMITED
DIRECTORS' REPORT**

For the year ended 31 December 2015

14. REMUNERATION REPORT – AUDITED (continued)

(c) Service contracts

On appointment to the Board, all non-executive directors enter into a letter of appointment with the Company specifying their functions and duties as a Director.

Executive remuneration and other terms of employment are formalised in service agreements. The service agreements outline the components of compensation paid to the Executives and key management personnel (KMPs) but do not prescribe how compensation levels are modified year by year. Compensation levels are reviewed each year to take into account cost of living changes, any change in the scope of the role performance by KMPs and any changes required to meet the principles of the compensation policy. The major provisions of the agreement relating to remuneration are set out below.

Name	Term of agreement	Employee notice period	Employer notice period	Base salary	Termination Benefit ⁽ⁱⁱⁱ⁾
Cosimo Damiano ^(iv)	Ongoing from 27 October 2015	3 months	3 months	\$36,000 ⁽ⁱ⁾	3 months base salary
David McArthur	Ongoing from 19 May 2011	3 months	3 months	\$50,000 ⁽ⁱⁱ⁾	3 months base salary

- (i) Base salary is inclusive of superannuation and quoted for the year ended 31 December 2015;
- (ii) Base salary is exclusive of superannuation and quoted for the year ended 31 December 2015;
- (iii) Termination benefits are payable upon early termination by the Company, other than for gross misconduct. They are equal to base salary for the notice period;
- (iv) Remuneration will include the issue of 5 million shares if, and when, the following criteria are satisfied:
- Source, evaluate, negotiate and assist in securing finance for an asset or assets which are secured by the Company that leads to a 300% increase in the Company's market capitalisation (to exclude any capital appreciation from any deal relating to the existing California assets); Or
 - Source in excess of \$3 million of new equity capital at terms acceptable to the Board; And
 - 3 years' service with the Company.

The criteria can be amended at the discretion of the Board should the base market capitalisation prior to a suitable asset being sourced not provide an equitable performance incentive.

(d) Non-executive directors

Total compensation for all non-executive directors, last voted upon by shareholders on 19 May 2011, is not to exceed \$400,000 per annum and is based on comparative roles in the external market. The base fee for all non-executive directors, including the Chairman, is \$32,500 per annum. Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed by the Remuneration and Nomination Committee and they do not receive cash performance related compensation.

The current base fees were last amended with effect from 1 October 2012. The fees approved by the Board are inclusive of the statutory superannuation amount and cover all main board activities and memberships of sub-committees.

In addition to their base fees, non-executive directors may also receive payment for consultancy services at the lesser of \$200 per hour or \$1,500 per day plus reimbursable expenses.

Having regard to the Company cash balances, with effect from 21 October 2015, the board agreed that all payments to directors (executive and non-executive) and director related parties would be deferred until a capital raising is secured.

XSTATE RESOURCES LIMITED
DIRECTORS' REPORT
For the year ended 31 December 2015

14. REMUNERATION REPORT - AUDITED (continued)

(e) Key management personnel remuneration

Name		Short-term employee benefits			Post-employment benefits	Share based payments		Total
		Salary and fees (A) \$	Non-monetary benefits (B) \$	Total \$	Super-annuation \$	Shares \$	Options (C) \$	
Executive directors								
Cosimo Damiano	2015	6,000	1,151	7,151	-	-	-	7,151
	2014	-	-	-	-	-	-	-
Sub-total executive directors' remuneration	2015	6,000	1,151	7,151	-	-	-	7,151
	2014	-	-	-	-	-	-	-
Non-executive directors								
Chris Hodge	2015	32,500	6,466	38,966	-	-	-	38,966
	2014	20,312	5,980	26,292	-	12,900	100,100	139,292
David McArthur	2015	79,680	6,465	86,145	7,570	-	-	93,715
	2014	64,259	5,964	70,223	6,909	32,215	100,100	209,447
Ian Tchacos	2015	32,497	6,466	38,963	-	-	-	38,963
	2014	12,186	2,310	14,496	-	-	-	14,496
Sub-total non-executive directors' remuneration	2015	144,677	19,397	164,074	7,570	-	-	171,644
	2014	96,757	14,254	111,011	6,909	45,115	200,200	363,235
Total current directors' remuneration	2015	150,677	20,548	171,225	7,570	-	-	178,795
	2014	96,757	14,254	111,011	6,909	45,115	200,200	363,235

XSTATE RESOURCES LIMITED
DIRECTORS' REPORT
For the year ended 31 December 2015

14. REMUNERATION REPORT - AUDITED (continued)

(e) Key management personnel remuneration (continued)

Name		Short-term employee benefits			Post-employment benefits	Share based payments		Total
		Salary and fees (A) \$	Non-monetary benefits (B) \$	Total \$	Super-annuation \$	Shares \$	Options (C) \$	
Former directors								
Paul Cartwright	2015	-	-	-	-	-	-	-
	2014	86,389	5,980	92,369	-	96,076	350,350	538,795
Sub-total former directors' remuneration	2015	-	-	-	-	-	-	-
	2014	86,389	5,980	92,369	-	96,076	350,350	538,795
Total key management Personnel remuneration	2015	150,677	20,548	171,225	7,570	-	-	178,795
	2014	183,146	20,234	203,380	6,909	141,191	550,550	902,030

Notes in relation to the table of directors' remuneration

(A) During the reporting period certain key management persons were paid for commercial, arms-length consulting services. The total quantum of these transactions as disclosed in note 6.3 of the notes to the consolidated financial statements was:

- Chris Hodge \$22,500 (2014: \$20,250)
- Ian Tchacos \$17,250 (2014: \$3,338)

(B) Comprises Directors and Officers insurance premiums;

(C) The fair value of options granted was determined using the Black-Scholes simulation pricing model

**XSTATE RESOURCES LIMITED
DIRECTORS' REPORT**

For the year ended 31 December 2015

14. REMUNERATION REPORT - AUDITED (continued)

(f) Analysis of bonuses included in remuneration

No short-term incentive cash bonuses have been awarded as remuneration to directors of the Company.

(g) Equity Instruments

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

Options over equity instruments granted as compensation

During the reporting period, no options were issued to directors of the Company

Exercise of options granted as compensation

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

Details of options affecting current and future remuneration

Details of vesting profiles of options held by each key management person of the Company are detailed below:

Name	Number of options	Grant date	% invested in year	% forfeited in year	Financial year in which grant vests
David McArthur	2,250,000	31 May 2013	-	-	1 January 2013

Options over equity instruments

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

	Held at 1 January 2015	Expired	Held at 31 December 2015	Vested and exercisable at 31 December 2015
Executive directors				
Chris Hodge	3,000,000	(3,000,000)	-	-
Non-executive directors				
David McArthur	5,250,000	(3,000,000)	2,250,000	2,250,000

**XSTATE RESOURCES LIMITED
DIRECTORS' REPORT**

For the year ended 31 December 2015

14. REMUNERATION REPORT - AUDITED (continued)

(h) Key management personnel transactions

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 2015	Purchases	Held at 31 December 2015
Executive directors			
Chris Hodge	2,284,839	4,832,500	7,117,339
Non-executive directors			
David McArthur	8,119,330	3,832,500	11,951,830
Ian Tchacos	516,467	3,832,500	4,348,967

(i) Voting and comments at the Company's 2015 Annual General Meeting

The Company received 97.2% of "yes" votes on its remuneration report for the 31 December 2014 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.

**XSTATE RESOURCES LIMITED
DIRECTORS' REPORT**

For the year ended 31 December 2015

15. LEAD AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001, is included in the Directors' Report for the financial year ended 31 December 2015.

This Directors' Report is made in accordance with a resolution of the Directors.



CHRIS HODGE

Managing Director

Dated at Perth, Western Australia this 16th day of March 2016.



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 2015 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.


KPMG



Grant Robinson
Partner

Perth

16 March 2016

CORPORATE GOVERNANCE STATEMENT

The 2015 Corporate Governance Statement is dated as at 31 December 2015 and reflects the corporate governance practices in place throughout the 2015 financial year.

The Board is committed to achieving and demonstrating the highest standards of Corporate Governance. The Board continues to review the framework and practices to ensure that they meet the best interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. Additionally, they comply with the 3rd edition of the ASX Corporate Governance Principles and Recommendations.

Board of Directors

Role of the Board

The primary responsibilities of the Board of Directors are set out in a written policy and include:

- Establishment of long-term goals of the Group and strategic plans to achieve these goals;
- Monitoring the achievement of these goals;
- Review of the management accounts and reports to monitor the progress of the Group;
- Review and adoption of budgets for the financial performance of the Group and monitoring the results on a regular basis to assess performance;
- Review and approval of the annual and interim financial reports;
- Nominating and monitoring the external auditor;
- Approving all significant business transactions;
- Appointing and monitoring senior management;
- All remuneration, development and succession issues;
- Ensuring the Group has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities;
- Overseeing the process for making timely and balanced disclosure of all material information that a reasonable person would expect to have a material effect on the price or value of the Company's securities;
- Ensuring that the Company has a suitably qualified Company Secretary who shall be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board; and
- Ensuring that the Company reports on its measurable objectives in relation to gender diversity and assesses annually both the objectives and progress in achieving gender diversity.

The Board evaluates this policy on an ongoing basis.

Board composition

The Directors' Report contains details of the Directors' skills, 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 Group's business with excellence. To maintain this, the Group's policy is that Executive Directors should serve at least 3 years. At the completion of the first 3 years, the position of the Director is reviewed to ascertain if circumstances warrant a further term.

XSTATE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

Board composition (continued)

The specific skills that the Board collectively bring to the Company include:

- Industry Experience
- Commercial Experience
- Public Company Experience
- Analytical
- Financial
- Risk Management
- Strategic Planning
- Strategic Leadership
- Corporate Governance
- Communications
- Inter personal

The Board comprises a Non-Executive Chairman, two Executive Directors, and one Non-Executive independent Director. A written agreement is entered into with each Director and Senior Executive of the Company setting out the terms of their employment.

Details of the Directors are set out in the Directors' Report.

The Board is primarily responsible for identifying potential new Directors and has the option to use an external consulting firm to identify and approach possible new candidates for Directorship. When a vacancy exists, or where it is considered that the Board would benefit from the services of a new director with particular skills, candidates with the appropriate experience, expertise and diversity are considered. Each incumbent director is given the opportunity to meet with each candidate on a one to one basis. The full Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of shareholders.

The Board undertakes appropriate checks before appointing a person as a Director or putting forward to shareholders a candidate for election as a Director.

The Board ensures that shareholders are provided with all material information in the Board's possession relevant to a decision on whether or not to elect or re-elect a Director.

The appointment of the Directors must be approved by the majority of the Shareholders at the first Annual General Meeting after the appointment.

Retirement and re-election of directors

The Constitution of the Group 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 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.

Independence of directors

The Board has reviewed the position and association of each of the Directors in the 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 3 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.

XSTATE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

Independence of directors (continued)

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

The Board acknowledges that it does not comprise of a majority of non-executive directors, however due to its size and stage of development it is not practical to have a Board that comprises a majority of non-executives.

Director education

All new Directors complete an induction process. 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. The Board are specifically provided the opportunity to enhance their financial, regulatory and compliance skills in relation to public companies through external courses.

Independent professional advice

With prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice at the Group's expense concerning any aspect of the Group's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

Board performance review

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 Directors conducted an internal performance evaluation of the Members of the Board during the reporting period.

Director remuneration

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

- (a) Non-Executive Directors will be remunerated by cash benefits (including statutory superannuation) and will not be provided with any benefits for ceasing to be a Director. Non executive directors may be offered performance based remuneration by way of options or Incentive share rights. The Board acknowledges the grant of options or incentive share rights to non- executive directors is contrary to Recommendation 8.3 of The Corporate Governance Principles and Recommendations, however the Board considers the grant of such options and share rights is reasonable in the circumstances for the following reasons:
- (i) the grant of options or incentive shares to non- executive directors will align the interests of the non executive directors with those of Shareholders;
 - (ii) the grant of the options or incentive shares is a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of this benefit will allow the Company to spend a greater proportion of its cash reserves on its operations than it would if alternative cash forms of remuneration were given to the non-executive directors; and
 - (iii) it is not considered that there are any significant opportunity costs to the Company or opportunities foregone by the Company in granting the non executive directors options or incentive shares.
- (b) Executive Directors may be remunerated by both fixed remuneration and equity performance based remuneration. A reasonable period of notice of termination will be required and will be detailed in the Executive's employment contract.

XSTATE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

Managing Business Risk

The Group maintains policies and practices designed to identify and manage significant risks including:

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Group's business plan;
- corporate strategy guidelines and procedures to review and approve the Group's strategic plans; and
- insurance and risk management programs 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 Board may consult with the Group's external auditors on external risk matters or other appropriately qualified external consultants on risk generally, as required.

The Board receives regular reports about the financial condition and operating results of the consolidated Group. The Managing Director (or in his absence the Chairman) and Chief Financial Officer (or someone who fulfills the role that would otherwise be performed by a CFO) annually provide a formal statement to the Board that in all material respects and to the best of their knowledge and belief:

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

The Company assesses its exposure to economic, environmental and social sustainability risks. The Board assesses the likely impact of changes and implements strategies to minimise exposure to these risks.

Due to its size and activities the Company does not have an internal audit function.

Internal Controls

Procedures have been established at the Board and Executive management levels that are designed to safeguard the assets and interests of the Group, 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.

Audit and Risk Management Committee

The role of the Audit and Risk Management Committee is documented in a Charter which is approved by the Board of Directors. In accordance with this Charter, all members of the Committee must be Non-Executive Directors.

The primary role of the Audit Committee is to:

- Assist the Board in fulfilling its overview of the audit process;
- Assist the Board in overseeing financial reporting;
- Assist the Board in fulfilling its overview of the systems of internal control which the Board and management have established;
- Monitor, review and recommend the adoption of the financial statements of the Company;
- Regularly review the adequacy of accounting, internal controls, reporting and other financial management systems and practices of the Company;
- Review the financial report and other financial information distributed externally;

XSTATE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

- Review any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- Review audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- Review the nomination and performance of the auditor;
- Liaise with external auditors and ensure that the annual and half-year statutory audits are conducted in an effective manner;
- Monitor the establishment of appropriate ethical standards;
- Monitor the procedures in place to ensure compliance with the *Corporations Act 2001* and Australian Securities Exchange Listing Rules and all other regulatory requirements;
- Address any matters outstanding with the auditors, the Australian Taxation Office, the Australian Securities and Investments Commission, the Australian Securities Exchange and financial institutions; and
- Improve the quality of the accounting function.

The members of the Audit and Risk Management Committee for the Company at the date of this report were:

- Mr David McArthur – non-executive director (Chair)
- Mr Ian Tchacos – independent non-executive director
- Mr Cosimo Damiano – director

The auditors and the Managing Director are invited to attend Audit Committee meetings at the discretion of the Committee. The Committee met two times during the year.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee operates in accordance with its Charter. The main responsibilities of the Remuneration Committee are:

- Determine remuneration policies and remuneration of Directors;
- Determine remuneration and incentive policies of Key Executives;
- Determine the Group recruitment, retention and termination policies and procedures for senior management;
- Determine and review incentive schemes;
- Determine and review superannuation arrangements of the Group; and
- Determine and review professional indemnity and liability insurance for Directors and senior management.

The members of the Remuneration and Nomination Committee for the Company at the date of this report were:

- Mr Ian Tchacos – independent non-executive director (Chair)
- Mr David McArthur – non-executive director
- Mr Cosimo Damiano - director

The Committee did not meet during the year.

Ethical Standards

In pursuit of the highest level of ethical standards, the Group has adopted a Code of Conduct which establishes the standards of behaviour required of Directors and employees in the conduct of the Group's affairs. This code is provided to all Directors and employees. Unethical behaviour is to be reported to the Group's Managing Director (or in his absence, the Chairman) as soon as possible.

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.

XSTATE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

Trading in the Company's Securities by Directors and Employees

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

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

Continuous Disclosure

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

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

The procedure adopted by the Group is essentially that any information which may need to be disclosed must be brought to the attention of the Chairman, 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 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.

Shareholders

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

- As the Group is a disclosing entity, regular announcements are made to the Australian Securities Exchange in accordance with the Group's disclosure policy, including the half-year review, the year-end audited accounts and an Annual Report;
- The Board ensures the Annual Report includes relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments;
- Shareholders are advised in writing of key issues affecting the Group by effective use of the Group's share registry or electronically via the website;
- Any proposed major changes in the Group's affairs are submitted to a vote of Shareholders, as required by the Corporations Act 2001 and the Australian Securities Exchange Listing Rules;
- The Board encourages full participation of Shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Group's strategies and goals. All Shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Group; and
- The external auditor is requested 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.

**XSTATE RESOURCES LIMITED
CORPORATE GOVERNANCE STATEMENT**

Diversity Policy

The Group is committed to workplace diversity and recognises the benefits arising from employee and Board diversity, including a broader pool of high quality employees, improved employee retention, accessing different perspectives and ideas, and benefitting from all available talent.

The Group strives to:

- Recruit and manage on the basis of an individual's competence, qualification and performance;
- Create a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff;
- Appreciate and respect the unique aspects that an individual brings to the workplace;
- Where possible and practicable, increase participation and employment opportunities for indigenous people;
- Create a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives through improved awareness of the benefits of workplace diversity and successful management of diversity, and at all times recognising that employees may have restrictions placed on them by domestic responsibilities outside the workplace;
- Take action to prevent discrimination; and
- Create awareness in all staff of their rights and responsibilities with regards to fairness, equity and respect for all aspects of diversity.

The Board is committed to workplace diversity and has developed measurable objectives and strategies to support the framework and objectives of the Diversity Policy, and the Nomination Committee is responsible for monitoring the progress of the measurable objectives through various monitoring, evaluation and reporting mechanisms. For the 2015 financial year the Boards' objectives were met by the Group. The Nomination Committee reports annually to the Board on the progress and achievement of the objectives.

Pursuant to Recommendation 1.5, the Group policy discloses the following information as at the date of this report:

Percentage details	Women	Men
Women and Men employed within the Group	-	100%
Women and Men at senior management level	-	100%
Women and Men employed at Board level	-	100%
Women and Men employed by Corporate services provider	75%	25%

ASX Corporate Governance principles and recommendations not followed - "if not, why not" approach

Pursuant to the ASX Listing Rule 4.10.3, the Company advises that it does not follow recommendation 8.3 of the ASX *"Corporate Governance Principles and Recommendations (Third Edition)"* for reasons stated above.

This statement is current as at 31 December 2015 and has been approved by the Board.



Director – David McArthur



Managing Director - Chris Hodge

XSTATE RESOURCES LIMITED
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 \$	2014 \$
Assets			
Cash and cash equivalents	4.1	38,039	490,147
Trade and other receivables	4.2	26,211	14,751
Prepayments		13,098	17,524
Interest bearing assets	5.2	59,919	-
Total current assets		137,267	522,422
Exploration and evaluation expenditure	3.1	-	897,321
Property, plant and equipment		3,270	10,472
Other receivables	4.2	43,590	45,773
Total non-current assets		46,860	953,566
Total assets		184,127	1,475,988
Liabilities			
Trade and other payables	4.3	131,275	111,876
Interest bearing liabilities	5.2	45,123	-
Employee benefits		16,252	16,109
Total current liabilities		192,650	127,985
Site restoration provision	3.3	70,961	63,496
Total non-current liabilities		70,961	63,496
Total liabilities		263,611	191,481
Net (liabilities) / assets		(79,484)	1,284,507
Equity			
Share capital	5.1	43,737,525	43,571,491
Reserves		92,158	662,011
Retained losses		(43,909,167)	(42,948,995)
Total (deficiency) / equity attributable to equity holders of the Company		(79,484)	1,284,507

The accompanying 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 2015

	Note	2015 \$	2014 \$
Revenue from operating activities			
Finance income	2.5	3,850	1,291
Other operating income	2.3	52,158	107,877
Foreign exchange gain / (loss)		21,622	30,919
Expenses			
Other operating expenses		(44,076)	(69,269)
Exploration expenditure		(178,311)	(242,133)
Impairment of capitalised exploration expenditure	3.1	(897,321)	(55,384)
Site restoration	3.3	-	(63,496)
Personnel expenses	2.4	(186,286)	(929,447)
Administrative expenses		(62,711)	(75,909)
Professional fees		(217,661)	(190,625)
Finance expenses	2.5	(1,522)	-
Other expenses		(9,114)	(8,690)
Impairment of investment in subsidiary		-	(27,250)
Impairment of investment in associate		(6,887)	(19,484)
Results from operating activities		(1,526,259)	(1,541,600)
Loss before income tax		(1,526,259)	(1,541,600)
Income tax expense	2.6	(1,063)	-
Loss for the year from continuing operations		(1,527,322)	(1,541,600)
Loss for the year		(1,527,322)	(1,541,600)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

	Note	2015 \$	2014 \$
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			-
Foreign currency translation difference of foreign operations		(2,703)	2,811
Gain on acquisition of non-controlling interest		-	53,257
Total items that may be reclassified subsequently to profit or loss		(2,703)	56,068
Total comprehensive loss for the year		(1,530,025)	(1,485,532)
Loss attributable to:			
Owners of the Company		(1,527,322)	(1,541,351)
Non-controlling interests		-	(249)
Loss attributable to owners of the Company		(1,527,322)	(1,541,600)
Total comprehensive loss attributable to:			
Owners of the Company		(1,530,025)	(1,485,283)
Non-controlling interests		-	(249)
Total comprehensive loss attributable to owners of the Company		(1,530,025)	(1,485,532)
Loss per share (cents per share)			
Basic and diluted (cents per share)	2.7	(0.77)	(0.88)

The accompanying notes are an integral part of these financial statements.

**XSTATE RESOURCES LIMITED
FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Share capital	Translation reserve	Options Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	
Balance at 1 January 2015	43,571,491	2,811	659,200	(42,948,995)	1,284,507
Total comprehensive income for the year					
Loss for the year	-	-	-	(1,527,322)	(1,527,322)
Other comprehensive income for the year					
Foreign exchange translation difference on foreign operations	-	(2,703)	-	-	(2,703)
Total other comprehensive loss for the year	-	(2,703)	-	-	(2,703)
Total comprehensive loss for the year	-	(2,703)	-	(1,527,322)	(1,530,025)
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Issue of ordinary shares	172,798	-	-	-	172,798
Transfer to accumulated losses on lapse of options	-	-	(567,150)	567,150	-
Capital raising costs	(6,764)	-	-	-	(6,764)
Total contributions by and distributions to owners	166,034	-	(567,150)	567,150	166,034
Total transactions with owners	166,034	-	(567,150)	567,150	166,034
Balance at 31 December 2015	43,737,525	108	92,050	(43,909,167)	(79,484)

The accompanying notes are an integral part of these financial statements.

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

	Share capital	Translation reserve	Share-based payments reserve	Options reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$	
Balance at 1 January 2014	41,586,203	-	55,004	92,050	(41,460,652)	272,605
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(1,541,600)	(1,541,600)
Other comprehensive income for the year						
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 year	-	2,811	-	-	(1,488,343)	(1,485,532)
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of 41,801,755 shares	2,043,175	-	(55,004)	-	-	1,988,171
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	-	(55,004)	567,150	-	2,497,434
Total transactions with owners	1,985,288	-	(55,004)	567,150	-	2,497,434
Balance at 31 December 2014	43,571,491	2,811	-	659,200	(42,948,995)	1,284,507

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 \$	2014 \$
Cash flows from operating activities			
Cash paid to suppliers and employees		(411,977)	(463,261)
Payments for exploration, evaluation and development		(148,585)	(195,803)
Interest received		457	1,187
Income taxes paid		(1,063)	-
Net cash used in operating activities	4.1b	(561,168)	(657,877)
Cash flows from investing activities			
Payments for capitalised exploration		-	(55,384)
Payments to associate		(6,887)	(19,484)
Acquisition of subsidiary, net of cash		-	2,430
Payments for property, plant and equipment		-	(2,044)
Net cash used in investing activities		(6,887)	(74,482)
Cash flows from financing activities			
Proceeds from issue of shares and options	5.1	164,798	1,000,000
Loans to joint venture partner		(56,424)	-
Capital raising costs		(6,764)	(63,388)
Net cash from financing activities		101,610	936,612
Net (decrease) / increase in cash and cash equivalents		(466,445)	204,253
Cash and cash equivalents at 1 January		490,147	258,484
Effect of exchange rate fluctuations on cash held		14,337	27,410
Cash and cash equivalents at 31 December	4.1a	38,039	490,147

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

SECTION 1 BASIS OF PREPARATION

In preparing the 2015 financial statements, the Company has made a number of changes in structure, layout and wording in order to make the financial statements less complex and more relevant for shareholders and other users. We have grouped notes into sections under six key categories:

1. Basis of preparation
2. Results for the year
3. Assets and liabilities relating to exploration and evaluation
4. Working capital disclosures
5. Equity and funding
6. Other disclosures

Significant accounting policies specific to one note are included within that note and where possible, wording has been simplified to provide clearer commentary on the financial report of the Group. Accounting policies determined non-significant are not included in the financial statements. There have been no changes to the Group's accounting policies that are no longer disclosed in the financial statements.

1.1 GENERAL INFORMATION

The Company is a for-profit, listed public company domiciled in Australia. The Company's registered office is located at Level 2, 55 Carrington Street, Nedlands, WA, 6009.

The Group is primarily involved in oil and natural gas exploration in the United States of America.

The consolidated financial statements of the Group as at and for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") were authorised for issue by the Board of Directors on 16 March 2016. The 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 (IFRSs) as issued by the International Accounting Standards Board (IASB);
- have been prepared on a historical cost basis, except for share-based payments which are measured at fair value. The basis of measurement is discussed further in the individual notes;
- are presented in Australian Dollars, being the Company's functional currency. Calog LLC functional currency is United States dollar;
- adopts all new and revised Australian Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 January 2015. Refer to note 6.9 for further details; and
- does not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but not yet effective. Refer to note 6.10 for further details.

1.2 GOING CONCERN

The directors have prepared the financial report on a going concern basis, which contemplates the realisation of assets and payment of liabilities in the normal course of business. The Group has a working capital deficit of \$55,383 and net cash outflows for the 31 December 2015 financial year of \$466,445 (2014: inflow \$204,253). The Group incurred a loss for the year of \$1,527,322 (including \$897,321 of exploration expenditure impaired in the period). As at the date of this report, the Group has cash and cash equivalents of \$5,946 and trade and other payables of \$124,997.

XSTATE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.2 GOING CONCERN (continued)

The Group is focused on securing further land leases in California and pursuing and assessing new venture opportunities which are complementary with its existing asset position. 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 successfully securing further working capital from one or more of the following alternatives:

- Capital market raising such as:
 - Private placement
 - Entitlements issue
 - Share purchase plan
- Borrowings from related or third parties
- Farming out assets to reduce expenditure obligations

The Group has demonstrated ability to raise funding in the past. The Directors have reviewed the Groups' financial position and forecast cash flows and reasonably expect that the Group will be able to raise additional funds to meet future costs and satisfy its business plans for at least the next 12 months. Subsequent to year end, a director of the Company agreed to provide the Group with a \$50,000 line of credit facility which will not be repayable until the Company is financially able to do so.

If necessary, the Group has the capacity to delay or cancel a number of expenses that are discretionary in nature, including administrative costs, particularly director fees and accounting services, exploration programmes and development expenditure that are not contractually committed to the extent to where minimal expenditure is required to be incurred. The timing of raising additional capital will depend on the investment markets, current and future planned exploration and development activities. The directors are therefore of the opinion that the use of the going concern basis is appropriate in the circumstances. Notwithstanding this assessment, due to Group's current working capital and funding position, there is material uncertainty regarding the outcomes of the future funding alternatives which casts significant doubt as to the ability of the Group to continue as a going concern.

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.

1.3 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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.

Where a joint arrangement is classified as a joint operation the Group recognises its proportionate share of revenue, expenditure, assets and liabilities.

XSTATE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.4 FOREIGN CURRENCIES

The primary economic environment in which the Group operates is Australia. The consolidated financial statements are therefore presented in Australian dollars.

Transactions in foreign currencies are initially recorded in Australian dollars at the exchange rate on that day. Foreign currency monetary assets and liabilities are translated into Australian dollars at the year end exchange rate. Where there is a movement in the exchange rate between the date of the transaction and the year end, a foreign exchange gain or loss may arise. Any such differences are recognised in the income statement. Non-monetary assets and liabilities measured at historical cost are translated into Australian dollars at the exchange rate on the date of the transaction.

1.5 IMPAIRMENT

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Impairment losses on available-for-sale investments are recognised by reclassifying the cumulative loss that has been recognised in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

At each reporting date, the Group reviews the carrying amount of its non-financial assets, other than DTA's, to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

1.6 ACCOUNTING JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's 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 estimates are recognised prospectively.

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

- *Note 1.2* - *Going concern*
- *Note 2.6* - *Recognition of tax losses*
- *Note 3.1* - *Capitalised exploration and evaluation costs*
- *Note 6.1* - *Share-based payments*

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SECTION 2 RESULTS FOR THE YEAR

This section focuses on the results and performance of the Group, with disclosures including segmental information, components of the operating profit, taxation and earnings per share.

Key estimates and assumptions in this section

Deferred taxation

The Group has unrecognised carry forward tax losses which can be utilised against future taxable profits. Given that the Group is not yet in production, the tax asset has not yet been recognised.

2.1 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 petroleum resource or type of petroleum resource; 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

	2015	2014
	\$	\$
Loss before income tax		
Total loss for reportable segments	(1,074,437)	(369,139)
Central administration and directors' remuneration	(454,150)	(1,173,752)
Finance expense	(1,522)	-
Finance income	3,850	1,291
Consolidated loss before income tax	(1,526,259)	(1,541,600)
Assets		
Total assets for reportable segments	-	928,094
Cash and cash equivalents	38,039	490,147
Other assets	146,088	57,747
Consolidated total assets	184,127	1,475,988

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 OPERATING SEGMENTS (continued)

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

	2015	2014
	\$	\$
Liabilities		
Total liabilities for reportable segments	(96,211)	(63,496)
Employee entitlements	(16,252)	(16,109)
Other liabilities	(151,148)	(111,876)
Consolidated total liabilities	<u>(263,611)</u>	<u>(191,481)</u>

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2014.

2.2 REVENUE

Accounting Policy

Revenue is measured at the fair value of the consideration received or receivable.

Interest income

The policy relating to interest income is set out in note 2.5.

2.3 OTHER INCOME

Accounting Policy

Other income is recognised when the amount can be reliably measured and control of the right to receive the income be passed to the Group.

		2015	2014
	Note	\$	\$
Other operating income	(i)	<u>52,158</u>	<u>107,877</u>

- (i) A by-product of exploration leases acquired in the Capay and Los Medanos gas fields is a working interest in minor gas production rights in the Sacramento Basin onshore California.

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.4 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

Accounting Policy

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.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of the future benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

Share-based payments

The policy relating to share-based payments is set out in note 6.1.

The table below sets out personnel costs expensed during the year.

	Note	2015 \$	2014 \$
Directors remuneration	6.3	178,795	902,030
Other wages and salaries		5,618	22,259
Employee contributions to defined contribution plans		1,677	3,457
Fringe benefits tax		-	1,450
Other associated personnel expenses		196	251
		186,286	929,447

2.5 FINANCE INCOME AND COSTS

Accounting Policy

Net finance costs comprise income on funds invested and interest expense on borrowings. Interest income and interest expense on short term borrowings is recognised as it accrues in profit or loss, using the effective interest method.

	Note	2015 \$	2014 \$
Interest income on bank deposits		355	1,269
Other interest income	5.2	3,495	-
		3,850	1,291
Interest expense on financial liabilities measured at amortised cost			
Interest expense on borrowings	5.2	(1,522)	-
Net finance income recognised in profit or loss		2,328	1,291

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.6 INCOME TAX EXPENSE

Accounting Policy

Income tax expense comprises current and deferred tax. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities. Current tax is based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used for calculating taxable profits. Deferred tax balances are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set-off.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probably that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on substantively enacted rates at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(a) Amounts recognised in profit or loss

	2015	2014
	\$	\$
Current tax benefit		
Current period	(134,008)	(95,533)
Adjustment for prior periods	1,063	
Deferred tax benefit		
Origination and reversal of temporary differences	134,008	95,533
Total income tax benefit	<u>1,063</u>	<u>-</u>

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.6 INCOME TAX EXPENSE (continued)

(b) Reconciliation of effective tax rate

	2015	2014
	\$	\$
Loss for the period	(1,527,322)	(1,541,600)
Total income tax benefit / (expense)	1,063	-
Profit / (Loss) excluding income tax	(1,526,259)	(1,541,600)
Income tax using the Group's domestic tax rate of 30% (2014: 30%)	(457,878)	(462,480)
Non-deductible expenses	345,981	366,258
Adjustment for prior periods	1,063	-
Timing differences not brought to account	(22,111)	689
Tax losses not brought to account	134,008	95,533
	1,063	-
Tax Losses		
Unused tax losses for which no deferred tax asset has been recognised	1,882,714	1,446,881
Potential tax benefit at 30% (2014: 30%)	564,814	434,064

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits of up to \$564,814 (2014:\$434,064) attributed 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..

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 legalisation continue to be complied with;
- iii) no changes in tax legislation adversely affect the Group in realising the benefit; and
- iv) satisfaction of either the continuity of ownership or the same business test.

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.6 INCOME TAX EXPENSE (continued)

(c) Unrecognised deferred tax assets and liabilities

Deferred tax assets and liabilities have not been recognised in respect of the following items:

	2015	2014
	\$	\$
Deferred tax liabilities (DTLs)		
Other receivables	-	31
Set-off against DTAs	-	(31)
	-	-
Deferred tax assets (DTAs)		
Black hole deductible costs	547	9,562
Trade and other payables	7,316	6,930
Carry forward tax losses	564,814	434,064
Employee benefits	4,876	4,833
Set-off against DTLs	-	(31)
DTAs not brought to account	577,553	455,358

There were no unregistered deferred tax liabilities.

2.7 LOSS PER SHARE

(a) Basic loss per share

Earnings / (loss) per share (EPS) is the amount of post-tax profit or loss attributable to each share.

The calculation of basic loss per share at 31 December 2015 has been based on the loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

Diluted EPS takes into account the dilutive effect of all potential ordinary shares, being share options on issue.

Loss per share attributable to ordinary shareholders

	2015	2014
Net loss attributable to ordinary shareholders - \$	(1,527,322)	(1,541,600)
Issued ordinary shares at 1 January	182,129,185	140,327,429
Effect of shares issued	16,911,537	34,508,447
Weighted average number of ordinary shares at 31 December	199,040,722	174,835,876
Basic loss per share (cents)	(0.77)	(0.88)
Diluted loss per share (cents) *	(0.77)	(0.88)

* At 31 December 2015, 22,000,000 options (2014: 39,000,000 options) were excluded from diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

SECTION 3 ASSETS AND LIABILITIES RELATING TO EXPLORATION AND EVALUATION

This section focuses on the assets and liabilities which form the core of the ongoing business, including those assets and liabilities which support ongoing exploration and evaluation as well as capital and other commitments existing at the year end.

Key estimates and assumptions in this section

Indicators of impairment for exploration and evaluation assets

The Group has reviewed exploration and evaluation assets for indicators of impairment in accordance with AASB 6 and concluded that impairment indicators did exist at year end. In making this assessment, management is required to make assessments on the status of each project and the future plans towards successful development and commercial exploitation, or alternatively sale, of the respective areas of interest.

Site restoration

Provisions for the costs of rehabilitation, decommissioning and restoration of the area disturbed during mining activities depends on the legal requirements at the date of decommissioning, the costs and timing of work and the discount rate to be applied.

3.1 EXPLORATION AND EVALUATION EXPENDITURE

Accounting Policy

Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the consolidated statement of financial position where it is expected that the expenditure may be recovered through the successful development and exploitation of an area of interest, or by its sale, or exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has been abandoned, the expenditure incurred thereon is written off in the year in which the decision is made.

Impairment

Non-current assets are tested for impairment when facts and circumstances indicate that the carrying amount may exceed the recoverable amount. Such triggering events are defined in AASB 6 'Exploration for and Evaluation of Mineral Resources' in respect of exploration and evaluation assets and includes consideration of commercial viability and technical feasibility.

Where a potential impairment is indicated, an assessment is performed for each CGU which is no larger than an area of interest. The Group performs impairment testing in accordance with note 1.5.

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 (refer note 3.3).

	2015	2014
	\$	\$
Costs carried forward in respect of areas of interest		
Exploration and evaluation expenditure	-	897,321

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.1 EXPLORATION AND EVALUATION EXPENDITURE (continued)

	2015	2014
	\$	\$
Movements for the year:		
Exploration and evaluation expenditure		
Opening balance	897,321	-
Acquisitions	-	952,705
Written off	(897,321)	(55,384)
	-	897,321

Following stringent new licensing conditions imposed by the State of California, management withdrew from the Coalinga water injection well and subsequently dissolved its associate Alamo Creek LLC. As a result, the directors deemed it appropriate to impair the capitalised exploration expenditure incurred on the acquisition of its subsidiary Bombora Energy Pty Ltd. The Group has no further obligations with respect to this investment.

3.2 PROPERTY, PLANT AND EQUIPMENT

Accounting Policy

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.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component. Items of property, plant and equipment are depreciated from the date that they are installed or ready for use.

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.3 PROVISIONS

Accounting Policy

Provisions

Provisions are determined by discounting the expected future cash flow at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance costs.

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.

At each reporting date the site rehabilitation provision is re-measured to reflect any changes in discount rates and timing or amounts of the costs to be incurred. Such changes in the estimated liability are accounted for prospectively from the date of the change and re-added to, or deducted from, the related asset where it is possible that future economic benefits will flow to the entity.

The non-current site restoration provision of \$70,961 (2014: \$63,496) is in respect of the Group's on-going obligation for the environmental rehabilitation of the Sacramento Basin onshore California area of interest. The timing of rehabilitation expenditure is dependent on the life of the oil field which may vary in the future. The nature of restoration activities include restoration, reclamation and revegetation of affected areas. The Company continues to work with the Californian authorities with regards to the planning and timing of the rehabilitation.

	2015	2014
	\$	\$
Site restoration provision	70,961	63,496
Movement in carrying amounts		
Opening balance	63,496	-
Provision	-	63,496
Effects of foreign exchange	7,465	-
Closing balance	70,961	63,496

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SECTION 4 WORKING CAPITAL DISCLOSURES

This section focuses on the cash funding available to the Group and working capital position at year end.

4.1 CASH AND CASH EQUIVALENTS

Accounting Policy

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.

(a) Reconciliation of cash and cash equivalents

	2015	2014
	\$	\$
Cash and cash equivalents in the statement of cash flows	38,039	490,147

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	2015	2014
		\$	\$
Cash flows from operating activities			
Loss for the period		(1,527,322)	(1,541,600)
Adjustments for:			
Capitalised exploration expenditure written off	3.1	897,321	55,384
Depreciation		7,201	7,932
Equity-settled share-based payment transactions	6.1	8,000	708,341
Net finance income	2.5	(1,973)	-
Impairment of investment in subsidiary		-	27,250
Impairment of investment in associate		6,887	19,484
Provision for site restoration	3.3	-	63,496
Net profit on foreign exchange translation		(9,651)	(24,680)
		(619,537)	(684,393)
Change in other receivables		(9,277)	(29,858)
Change in prepayments		4,503	588
Change in trade and other payables		19,399	47,979
Change in interest bearing liabilities		43,601	-
Change in provisions and employee benefits		143	7,807
Net Cash used in operating activities		(561,168)	(657,877)

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.2 OTHER RECEIVABLES

Accounting Policy

Trade receivables are recognised initially at the value of the invoice sent to the counter-party and subsequently at the amounts considered recoverable (amortised cost). Where there is evidence that the receivable is not recoverable, it is impaired with a corresponding charge to the consolidated statement of profit or loss.

	Note	2015 \$	2014 \$
ANZ security deposit		-	15,000
Bank interest receivable		-	103
Net production revenue receivable		43,590	30,773
Other receivables		21,450	7,387
GST and PAYG receivable		4,761	7,261
		69,801	60,524
Current		26,211	14,751
Non-current		43,590	45,773
		69,801	60,524

Information about the Group's exposure to credit and market risks is included in note 6.2.

4.3 TRADE AND OTHER PAYABLES

Accounting Policy

Trade payables represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid at the end of the month following date of recognition.

	Note	2015 \$	2014 \$
Current			
Trade payables		99,725	82,396
Other payables and accrued expenses		31,550	29,480
		131,275	111,876

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 6.2.

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SECTION 5 EQUITY AND FUNDING

This section focuses on the share capital, options and debt funding available to the Group at year end.

5.1 CAPITAL AND RESERVES

Accounting Policy

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.

Share capital

	Ordinary shares			
	Number of shares		Amount in \$	
	2015	2014	2015	2014
Movements in ordinary shares on issue:				
On issue at 1 January	182,129,185	140,327,429	43,571,491	41,586,203
<i>Shares issued and expensed during the period:</i>				
Issue of shares in lieu of directors' fees	-	4,817,171	-	196,195
Issue of shares for acquisition of Bombora Energy Pty Ltd	-	16,984,585	-	846,980
Placement of shares for working capital	-	20,000,000	-	1,000,000
Issue of shares at 0.8 cents each as part consideration for consulting fees	1,000,000	-	8,000	-
Issue of shares at 0.3 cents each under Share Purchase Plan	54,932,510	-	164,798	-
Capital raising costs	-	-	(6,764)	(57,887)
On issue at 31 December	238,061,695	182,129,185	43,737,525	43,571,491

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

In the event of a winding up of the Group, 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 share options on issue (see note 6.1).

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.1 CAPITAL AND RESERVES (continued)

Nature and purpose of reserves

Options reserve

The options 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 or reversed through retained earnings if the options expire or are cancelled.

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.

5.2 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 6.2.

	2015	2014
	\$	\$
Current		
Loan to joint venture partner for cash calls	59,919	-
Loan from joint venture partner for cash calls	(45,123)	-
	14,796	-

During the year, joint venture partners mutually agreed to fund reciprocal cash calls. At year end these amounts had not been offset or repaid and are recorded as unsecured loans accruing interest at 7% per annum.

	2015	2014
	\$	\$
Loan to joint venture partner		
Opening balance	-	-
Cash calls paid on behalf of joint venture partner	56,424	-
Interest charged	3,495	-
	59,919	-
Loan from joint venture partner		
Opening balance	-	-
Cash calls paid by joint venture partner	(43,601)	-
Interest charged	(1,522)	-
	(45,123)	-

SECTION 6 OTHER DISCLOSURES

The disclosures in this section focus on share schemes in operation and financial risk management of the Group. Other mandatory disclosures, such as details of related party transactions, can also be found here.

Key estimates and assumptions in this section

Share-based payments

The fair value of share options is measured using the binomial options pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on an evaluation of the company's historic volatility, particularly over the historic period commensurate with the expected term) and weighted average expected life of the instruments (based on historical experience), expected dividends (if any) and the risk free interest rate (based on government bonds). Service and non-market conditions are not taken into account in determining fair value.

6.1 SHARE-BASED PAYMENT PLANS

Accounting Policy

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.

Where the fair value of an employee share option has been recognised as a share-based payment and the option lapses on expiry, the total amount of the share-based payment expense is transferred from the share-based payment reserve to accumulated losses.

The share-based payment expense included within the consolidated statement of comprehensive profit or loss can be broken down as follows:

	2015	2014
	\$	\$
Expensed in personnel expenses (director remuneration)		
Options issued to directors, employees and consultants	-	567,150
Shares issued to directors	-	141,191

Equity-settled share option programme

The Company adopted an Employee Share Options Scheme (ESOS) effective 31 January 2014. Under the ESOS, the Company may grant options and rights to Company eligible employees to acquire securities to a maximum of 10% of the Company's total issued ordinary shares at the date of the grant. The fair value of share options granted is estimated using the Black-Scholes option pricing model.

The options and rights vest on a time scale as specified in the ESOS and is granted for no consideration. Options and rights granted under the plan carry no dividend or voting rights. When exercisable, each option is converted into one ordinary share. The maximum term of an option is 5 years from grant date and are settled in cash.

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

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.1 SHARE-BASED PAYMENT PLANS (continued)

Options

At 31 December 2015, a summary of the Group options issued and not exercised are as follows. Options are settled by the physical delivery of shares:

Grant date	Vesting date	Expiry date	Exercise Price (cents)	Balance at the start of the year	Granted during the year	Exercised during the year	Expired / forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
31-May-13	25-Jun-13	31-May-16	4.0	6,500,000	-	-	-	6,500,000	6,500,000
31-May-13	25-Jun-13	31-May-16	6.0	6,500,000	-	-	-	6,500,000	6,500,000
31-May-13	25-Jun-13	31-May-16	8.0	6,500,000	-	-	-	6,500,000	6,500,000
25-Oct-13	28-Oct-13	31-Dec-16	5.0	2,000,000	-	-	-	2,000,000	2,000,000
04-Nov-13	05-Nov-13	31-Dec-16	5.0	500,000	-	-	-	500,000	500,000
31-Jan-14	3-Feb-14	31-Dec-15	6.0	5,500,000	-	-	(5,500,000)	-	-
31-Jan-14	3-Feb-14	31-Dec-15	8.0	5,500,000	-	-	(5,500,000)	-	-
31-Jan-14	3-Feb-14	31-Dec-15	10.0	5,500,000	-	-	(5,500,000)	-	-
31-Jan-14	3-Feb-14	31-Dec-15	8.0	500,000	-	-	(500,000)	-	-
Total				39,000,000	-	-	(17,000,000)	22,000,000	22,000,000
Weighted Average Exercise Price (cents)				6.81	-			5.89	

No options were granted during the year (2014: 17,000,000 options granted).

During the year ended 31 December 2015, 17,000,000 options expired (2014: nil options expired).

At the exercise date, the weighted average remaining contractual life of options outstanding at year end was 0.48 years (2014: 1.27 years).

The weighted average exercise price of outstanding shares at the end of the reporting period was 5.89 cents (2014: 7 cents).

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.1 SHARE-BASED PAYMENT PLANS (continued)

Options (continued)

At 31 December 2014, a summary of the Group options used and not exercised are as follows:

Grant date	Vesting date	Expiry date	Exercise Price (cents)	Balance at the start of the year	Granted during the year	Exercised during the year	Expired / forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
31-May-13	25-Jun-13	31-May-16	4.0	6,500,000	-	-	-	6,500,000	6,500,000
31-May-13	25-Jun-13	31-May-16	6.0	6,500,000	-	-	-	6,500,000	6,500,000
31-May-13	25-Jun-13	31-May-16	8.0	6,500,000	-	-	-	6,500,000	6,500,000
25-Oct-13	28-Oct-13	31-Dec-16	5.0	2,000,000	-	-	-	2,000,000	2,000,000
04-Nov-13	05-Nov-13	31-Dec-16	5.0	500,000	-	-	-	500,000	500,000
31-Jan-14	3-Feb-14	31-Dec-15	6.0	-	5,500,000	-	-	5,500,000	5,500,000
31-Jan-14	3-Feb-14	31-Dec-15	8.0	-	5,500,000	-	-	5,500,000	5,500,000
31-Jan-14	3-Feb-14	31-Dec-15	10.0	-	5,500,000	-	-	5,500,000	5,500,000
31-Jan-14	3-Feb-14	31-Dec-15	8.0	-	500,000	-	-	500,000	500,000
Total				22,000,000	17,000,000	-	-	39,000,000	39,000,000
Weighted Average Exercise Price (cents)				5.89	8.00			6.81	

Shares issued in lieu of consultancy fees

On 5 May 2015, Directors approved the issue of 1,000,000 “effort” shares at 0.8 cents each to secure the services of a consultant.

6.2 FINANCIAL RISK MANAGEMENT

Accounting Policy

Classification of financial instruments

The financial assets and liabilities of the Group are classified into the following financial statement captions in the statement of financial position in accordance with AASB 139 *Financial Instruments*:

- Loans and receivables – separately disclosed as cash and cash equivalents and trade and other receivables;
- Financial liabilities measured at amortised cost – separately disclosed as borrowings and trade and other payables

Judgement is required when determining the appropriate classification of the Group's financial instruments. Details on the accounting policies for measurement of the above instruments are set out in the relevant note.

Recognition and de-recognition of financial assets and liabilities

The Group recognises a financial asset or liability when it becomes a party to the contract. Financial instruments are no longer recognised in the statement of financial position when contractual cash flows expire or when the Group no longer retains control of substantially all the risks and rewards under the instrument.

Overview

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies.

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.

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.

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

Cash and cash equivalents

The Group held cash and cash equivalents of \$38,039 at 31 December 2015 (2014: \$490,147). The cash and cash equivalents are held with authorised banking institutions and only with counterparties that have an acceptable credit rating.

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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.

At 31 December 2015, the maximum exposure to credit risk for other receivables by geographic region was as follows:

	Carrying amount	
	2015	2014
	\$	\$
Australia	26,211	29,751
USA	43,590	30,773
	69,801	60,524

Currently, the Group undertakes exploration and evaluation activities exclusively in the USA. As the Group is not trading there are no financial assets past due and there is no management of credit risk through performing an aging analysis; therefore an aging analysis has not been disclosed.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 excluding the impact of netting arrangements:

	Carrying amount	Contractual cash flows	12 months or less
	\$	\$	\$
31 December 2015			
Non-derivative financial liabilities			
Trade and other payables	131,275	131,275	131,275
Employee entitlements	16,252	16,252	16,252
Interest bearing liabilities	45,123	45,123	45,123
	192,650	192,650	192,650
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

The balances above will not always agree to the financial statements as the contractual cash flows above are undiscounted. The carrying amount is the balance as recognised in the statement of financial position.

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2. FINANCIAL RISK MANAGEMENT (continued)

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. There has been no change to the manner in which the Group manages market risk from the previous year.

Currency risk

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

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

	Assets		Liabilities	
	2015	2014	2015	2014
	\$	\$	\$	\$
US dollar	49,485	499,880	-	-

Foreign currency sensitivity analysis

The Group is mainly exposed to US dollars (USD). The following table details the Group's sensitivity to a 10% (31 December 2014: 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 yearend for a 10% (31 December 2014: 10%) change in foreign currency rates. A positive number indicates an increase in profit or loss where the Australian dollar strengthens against the respective currency.

	Impact on profit or loss	
	2015	2014
	\$	\$
If AUD strengthens by 10% (31 December 2014: 10%)		
USD	(4,499)	(45,444)
If AUD weakens by 10% (31 December 2014: 10%)		
USD	5,498	55,542

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

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk

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

Exposure to interest rate risk

The interest rate profile of the Group's interest bearing financial instruments as reported to management of the Group is as follows:

	Carrying amount	
	2015	2014
	\$	\$
Variable rate instruments		
Cash and cash equivalents	38,039	490,147
Interest bearing assets	59,919	-
	97,958	490,147

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for twelve months ended 31 December 2014.

	Profit or loss	
	100 bp increase	100 bp decrease
	\$	\$
31 December 2015		
Variable rate instruments	380	(80)
Cash flow sensitivity	380	(80)
31 December 2014		
Variable rate instruments	5,051	(495)
Cash flow sensitivity	5,051	(495)

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

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2. FINANCIAL RISK MANAGEMENT (continued)

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.

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.

Cash and cash equivalents, trade and other receivables, trade creditors, other creditors, accruals and employee entitlements have been excluded from the above analysis as their fair values are equal to the carrying values.

6.3 RELATED PARTIES

Key management personnel compensation included in 'personnel expenses' (note 2.4) and 'share-based payments' (note 6.1), comprises the following:

	Note	2015 \$	2014 \$
Short term employee benefits		171,225	178,380
Post-employment benefits		7,570	6,909
Termination benefits		-	50,000
Share based payments – shares		-	116,191
Share-based payments – options	6.1	-	550, 550
	2.4	178,795	902,030

Individual directors and executives compensation disclosures

Information regarding individual directors and executive's compensation and some equity instruments disclosures as required by S300A of the Corporations Act and Corporations Regulations 2M.3.03 are provided in the Remuneration report section of the Directors' report in section 14.

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

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.3 RELATED PARTIES (continued)

Other key management personnel transactions

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

A number of these companies transacted with the Group during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions to non-key management personnel related companies 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:

<i>Key management person</i>	<i>Transaction</i>	<i>Note</i>	Transactions value		Balance outstanding	
			year ended 31 December		as at 31 December	
			2015	2014	2015	2014
			\$	\$	\$	\$
Chris Hodge	Consultancy fees	(i)	22,500	20,250	27,775	18,837
David McArthur	Management fees	(ii)	84,000	74,000	30,800	23,100
Ian Tchacos	Consultancy fees	(iii)	17,250	3,338	9,785	3,701
					68,360	45,638

- (i) The Group used the consultancy services of CCH Resources Pty Ltd, a company associated with Chris Hodge, in relation to advice on certain exploration and management activities of the Group. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.
- (ii) The Group used the management services of Broadway Management (WA) Pty Ltd, a company associated with David McArthur, in relation to advice on certain legal and management activities of the Group. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.
- (iii) The Group used the consultancy services of Lykos Consulting Pty Ltd, a company associated with Ian Tchacos, in relation to advice on certain exploration and management activities of the Group. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

6.4 SUBSIDIARIES

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

Name of subsidiary	Principal activity	Place of incorporation and operation	Financial year end	Proportion of ownership interest and voting power held by the Group	
				2015	2014
				%	%
Bombora Energy Pty Ltd	Oil and gas exploration	Australia	31 December	100	100
Calog LLC	Oil and gas exploration	California, USA	31 December	100	100

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.5 ASSOCIATES

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

Name of associatey	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2015 %	2014 %
Alamo Creek Oil LLC	Oil and gas exploration	California, USA	25	25
Cal LNG LLC	Oil and gas exploration	California, USA	18	18

6.6 PARENT COMPANY DISCLOSURES

As at, and throughout the financial year ended 31 December 2015, the parent entity of the Group was Xstate Resources Limited.

	2015 \$	2014 \$
Results of the parent entity		
Loss for the year	(1,501,529)	(1,514,028)
Other comprehensive income	-	-
Total comprehensive loss for the year	(1,501,529)	(1,514,028)
Financial position of parent entity at year end		
Current assets	180,857	549,958
Total assets	184,127	1,447,493
Current liabilities	192,650	127,985
Total liabilities	263,611	191,482
Total equity of the parent entity comprising of:		
Share capital	43,737,525	43,571,491
Reserves	92,050	659,200
Accumulated losses	(43,909,059)	(42,974,680)
Total (deficiency) / equity	(79,484)	1,256,011
Commitments		
Office rent		
Less than one year	-	12,600

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.7 SUBSEQUENT EVENTS

On 7 January 2016, Mr McArthur has agreed to provide the Company with a \$50,000 line of credit facility which is not repayable until the Company is financially able to do so.

On 22 January 2016, Alamo Creek Oil LLC, an associate company in California USA, was dissolved.

Other than as disclosed above, there have been no matters or circumstances that have arisen since the end of the financial year 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.

6.8 AUDITORS' REMUNERATION

	2015	2014
	\$	\$
KPMG Australia:		
<i>Auditors and other assurance services</i>		
Audit and review of financial reports	36,758	50,230
Total remuneration for audit and other assurance services	<u>36,758</u>	<u>50,230</u>
<i>Taxation services</i>		
Tax compliance services	-	14,050
Total remuneration of KPMG Australia	<u>36,758</u>	<u>64,280</u>
TOTAL AUDITORS' REMUNERATION	<u>36,758</u>	<u>64,280</u>

It is the Group's policy to employ KPMG on assignments additional to their statutory audit duties where KPMG's expertise and experience with the Group are important. These assignments are principally tax advice, or where KPMG is awarded assignments on a competitive basis. It is the group's policy to seek competitive tenders for all major consulting projects.

6.9 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Except for the changes below, the Group has consistently applied the accounting policies set out in the notes to the consolidated financial statements 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 2015.

- (a) AASB 2014-1 (Part C) *Further amendments to Australian Accounting Standards to delete their references to AASB 1031, prior to final withdrawal of the standard*
- (b) Annual Improvements (2010 – 2012): Related Party Disclosures AASB 124 - *Clarifies where KMP is an entity (e.g. Responsible Entity / Trustee) and disclose total remuneration paid to KMP, not individual of KMP*
- (c) Annual Improvements (2010 – 2012): Operating Segments AASB 8 – *An entity is only required to provide a reconciliation of segments' assets to the entity's assets when assets are reported to CODM*
- (d) Annual Improvements (2010 – 2012): Share Based Payments AAASB 2 – *Amends the definition of vesting and market conditions and adds definitions for performance and service conditions*

The adoption of these standards and interpretations did not have a material impact on the Group.

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.10 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date of authorisation of the financial statements, the following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 31 December 2015.

Reference	Title	Summary	Application date of standard	Application date for the Group
			Periods beginning on or after	
AASB 2014-3	Accounting for Acquisitions of Interests in Joint Operations	Business combination accounting required to be applied to acquisitions of interests in a joint operation that meets the definition of a 'business' under AASB 3 <i>Business Combinations</i> .	1 January 2016	1 January 2016
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation	Introduces a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. Limited opportunity for presumption to be overcome. Clarifies that revenue-based depreciation for property, plant and equipment cannot be used.	1 January 2016	1 January 2016
AASB 2014-9	Equity Method in Separate Financial Statements	Allows the use of the equity method in separate financial statements in the accounting for associates, joint ventures and subsidiaries	1 January 2016	1 January 2016
AASB 2014-10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments require the full gain or loss to be recognised when the assets transferred meet the definition of a 'business' under AASB 3 <i>Business Combinations</i> (whether housed in a subsidiary or not).	1 January 2016	1 January 2016
AASB 2015-2	Disclosure Initiative: <i>Amendments to AASB 101</i>	The amendments do not require any significant change to current practice, but should facilitate improved reporting, including emphasis on only including material disclosures, clarity on the aggregation and disaggregation of line items, the presentation of subtotals, the ordering of notes and the identification of significant accounting policies.	1 January 2016	1 January 2016
AASB 1057	Application of Australian Accounting Standards	Majority of AASB standards and interpretations have been reissued for editorial changes. However, there is no technical application impact from reissue of standards and interpretations. A new standard, AASB 1057 has been issued as part of the reorganisation process.	1 January 2016	1 January 2016

XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.10 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

Reference	Title	Summary	Application date of standard	Application date for the Group
			Periods beginning on or after	
AASB 2015-1	Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	Amendments to existing accounting standards, particularly in relation to: <ul style="list-style-type: none"> • AASB 5 – guidance on changes in methods of disposal; • AASB 7 – clarifies ‘continuing involvement’ for servicing contracts; • AASB 7 – clarifies offsetting disclosures are not necessarily required in interim financial statements, but may be included under the general requirements of AASB 134; • AASB 119 – clarifies that discount rates used should be in the same currency as the benefits are to be paid; and • AASB 134 – clarifies that disclosures may be incorporated in the interim financial statements by cross-reference to another part of the interim financial report. 	1 January 2016	1 January 2016
AASB 9	Financial Instruments	The AASB has issued the complete AASB 9. The new standard includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hed accounting requirements previously published. It supersedes AASB 9 (issued in December 2009 – as amended) and AASB 9 (issued in December 2010).	1 January 2018	1 January 2018
AASB 15 *	Revenue from Contracts with Customers	This standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: <ul style="list-style-type: none"> • at a point in time; or • over time. <p>The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.</p>	1 January 2018	1 January 2018

* Assumes that the AASB will also agree to defer the effective date of AASB 15

**XSTATE RESOURCES LIMITED
DIRECTORS' DECLARATION**

DIRECTORS' DECLARATION

- 1 In the opinion of the directors of Xstate Resources Limited (the "Group"):
- (a) the consolidated financial statements and notes 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 2015 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - (b) as set out in note 1.2, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
- 2 The directors draw attention to note 1.1 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, Western Australia this 16th day of March 2016.



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 2015, 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 6.10 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 1.1, 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 2015 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 1.1.

Emphasis of matter

Without modifying our opinion expressed above, attention is drawn to the director's assessment of going concern in note 1.2 of the financial statements. The Group's ability to continue as a going concern is dependent on the Group successfully securing further working capital from a capital raising, borrowings from related or third parties or farming out assets to reduce expenditure obligations in the near future. These matters indicate the existence of a material uncertainty which may cast significant doubt as to whether the Group will be able to continue as a going concern and therefore, the Group may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2015. 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 2015, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Grant Robinson
Partner

Perth

16 March 2016

XSTATE RESOURCES LIMITED
STOCK EXCHANGE INFORMATION

STOCK EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 29 February 2016:

1. Distribution of ordinary shares

Range	Total holders	Ordinary shares	% of issued capital
1 - 1,000	709	80,527	0.03
1,001 - 5,000	108	294,829	0.12
5,001 - 10,000	68	555,885	0.23
10,001 - 100,000	226	8,870,260	3.73
100,001 and over	229	228,260,194	95.89
Total	1,340	238,061,695	100.00

There were 1,124 holders of less than a marketable parcel of ordinary shares.

2. Substantial shareholders

The substantial shareholders are set out below:

Shareholders	Number of Shares
Bond Street Custodians Limited <PNCORK D00089 A/C>	18,561,308
Suburban Holdings Pty Ltd <The Suburban Super Fund A/C>	12,336,637

3. Voting rights

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll, every member present or by proxy shall have one vote for every share held.

Options and rights

No voting rights.

XSTATE RESOURCES LIMITED
STOCK EXCHANGE INFORMATION

4. Unlisted options

Grant date	Number	Number of holders	Expiry date	Exercise price (cents)
31-May-13	6,500,000	4	31-May-16	4.0
31-May-13	6,500,000	4	31-May-16	6.0
31-May-13	6,500,000	4	31-May-16	8.0
25-Oct-13	2,000,000	1	31-Dec-16	5.0
04-Nov-13	500,000	1	31-Dec-16	5.0

There are 22,000,000 options issued to 14 holders under the Xstate Resources long-term option plan to take up ordinary shares.

5. Twenty largest shareholders

Shareholders	Ordinary shares	
	Number held	% of issued shares
Bond Street Custodians Limited <PNCORK – D00089 A/C>	18,561,308	7.80
Suburban Holdings Pty Ltd <The Suburban Super Fund A/C>	12,336,637	5.18
DASMAC (WA) Pty Ltd <McArthur Family Super Fund A/C>	7,877,231	3.31
Mrs Terri Wolpert	7,119,799	2.99
Mrs Kerry Martens & Mr Keith Martens <Onslow Super Fund A/C>	6,526,549	2.74
Netwealth Investments Limited	6,352,500	2.67
Mr Errol Bome & Mrs Melanie Bome <The Bome Super Fund A/C>	5,723,904	2.41
Great Eastern Holdings Pty Ltd	5,615,833	2.36
Mr David Maxwell McArthur	5,224,036	2.19
Mrs Melanie Jill Bome	5,192,308	2.18
Blue Sky International Holdings Inc	5,000,000	2.10
Matilda West Pty Ltd	4,700,000	1.97
Warroorah Pty Ltd	4,348,967	1.83
Cornucopia Assets Pty Ltd <Cornucopia Super Fund A/C>	4,232,500	1.78
Aviemore Capital Pty Ltd	4,200,000	1.76
National Nominees Limited	3,590,174	1.51
Mr John Geoffrey Moody	3,500,000	1.47
Mr Aubrey Eric Zelinsky	3,045,003	1.28
Bell Potter Nominees Limited <BB Nominees A/C>	3,000,000	1.26
Citicorp Nominees Pty Ltd	2,910,021	1.22

XSTATE RESOURCES LIMITED
STOCK EXCHANGE INFORMATION

6. Petroleum tenement interests at 29 February 2016

Project name	Location	Working interest
Alvares Prospect	Sacramento Basin Onshore Northern California	25%
Dempsey 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%

7. Gold tenements listing at 29 February 2016

Tenement description	Tenement number	Status	Percentage interest
King Brown	M24/705	Granted	12%
