



XState Resources Limited

ABN 96 009 217 154

Registered office

Level 2
45 Stirling Highway
Nedlands WA 6009

Postal address

PO Box 985
Nedlands WA 6909

Tel: +61 8 9389 8799

Fax: +61 8 9389 8327

Website

www.xstate.com.au

27 April 2007

ASX LIMITED

Dear Sir / Madam

We confirm that the 2006 Annual Report together with the Notice of Annual General Meeting, Explanatory Memorandum and Proxy Form has been despatched to shareholders.

Yours faithfully

XSTATE RESOURCES LIMITED

A handwritten signature in black ink that reads "D McArthur". The signature is written in a cursive style.

DAVID McARTHUR

Director



Xstate
RESOURCES
ABN 96 009 217 154

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COMPANY DIRECTORY

DIRECTORS

Ross Kestel
David McArthur
Douglas Wood

SECRETARY

David McArthur

REGISTERED AND PRINCIPAL OFFICE

Level 2, 45 Stirling Highway
Nedlands WA 6009
Telephone: (08) 9389 8799
Facsimile: (08) 9389 8327

SHARE REGISTRY

Advanced Share Registry Services
110 Stirling Highway
Nedlands WA 6009
Telephone: (08) 9389 8033
Facsimile: (08) 9389 7871

BANKERS

National Australia Bank
110 Broadway
Nedlands WA 6009

AUDITORS

KPMG
Central Park
152-158 St George's Terrace
Perth WA 6000

SOLICITORS

Steinepreis Paganin
Level 4, Next Building
16 Milligan Street
Perth WA 6000

DOMICILE AND COUNTRY OF INCORPORATION

Australia

MANAGING DIRECTOR'S LETTER

Dear Shareholder

The financial year ended 31 December 2006 was a significant period in the ongoing development of your Company.

For a lengthy period the directors have attempted to locate suitable opportunities with which to recapitalise the Company.

Following a number of disappointments and unsuccessful negotiations, the directors finally identified a potential opportunity to explore for, and possibly mine, uranium and other minerals in Arizona in the USA. Your Company has committed US\$2.9 million to earn a 50% interest in the Elle joint venture, with US based Liberty Star Gold Corp holding the remaining 50% of the joint venture.

The joint venture tenements are strategically located in an area of known significant uranium mining within the "Arizona Strip" in the USA. The substantial demand for uranium in the USA alone with the ongoing and growing commitment to nuclear power generation makes this an extremely exciting opportunity for the Company.

Following a successful capital raising in late 2006, your Company now has an excellent exploration portfolio, a healthy working capital balance, and is in the process of growing the Company's technical team.

On behalf of all the directors I would like to thank every shareholder for their patience and wish all shareholders a prosperous future with the Company.

Yours faithfully



DAVID McARTHUR

Managing Director



OPERATIONS REPORT



XState Resources Limited ("XState") has a joint venture with Liberty Star Gold Corp ("Liberty Star") to explore, develop and, if warranted, mine certain mineral leases located in the US state of Arizona.

Both parties hold a 50% interest in the joint venture. XState carried its 50% interest by contributing US\$2.9 million to the joint venture to fund exploration over the joint venture area.

XState is the manager of the joint venture, and has subcontracted the management to Liberty Star.

The JV area lays in north western Arizona, part of a vast region called the 'Arizona Strip'. It occupies the Upper Clayhole and Antelope Valleys of Mohave County, State of Arizona, USA.

The joint venture area comprises 57km of ground prospective for uranium.

Included within the bounds of the JV Area are various Pipe Targets. Three of these are the primary targets and have been allocated to the Joint Venture and are the Elle, Hermina, and Hada pipes.

The Elle and Hermina Pipes have been defined by interpretation of circular features and down warped beds related to collapse breccia pipes and have interpreted sulphide minerals associated with them indicated by electrical geophysical surveys starting at a depth of about 250 metres.

Elle is immediately adjacent to the Lisa Pipe owned by Pathfinder Mines. Old information in Liberty Star files and verbal communications with past Pathfinder personnel suggest Lisa has mineralised intercepts and is thought to contain an ore body.

Hermina is immediately adjacent to the Elle Pipe to the southeast. The Hada Pipe lies to the northwest of the Lisa Pipe and is indicated only by geophysics.

Fourteen additional Pipe Targets have been identified within the JV Area. Of these, seven lie within current Liberty Star U.S. Federal Lode Mining Claims. These include the Loreto, Leif, Gitel, Kalila, Labrenda, John and Kaitlin. Another six have been identified and Liberty Star intends to acquire these Pipe Targets by staking. These include pipes known as Hazel, Godiva, Hafsa, Gurit, Gerarda, and Honesta.

According to the U.S. Geological Survey, the breccia pipes in the Arizona Strip are of high grade compared to sediment hosted roll front deposits mined throughout the western US, with an estimated potential average grade for ore bearing pipes at about 0.7% to 0.8% uranium. This suggests that such pipes may contain mineral bodies of about 14 to 16 pounds or more of uranium per tonne. At current prices this is approximately equal to 1 ounce of gold per tonne. The pipes contain numerous metals in addition to uranium including copper, molybdenum, and silver. The uranium mineralisation however is by far the most economically important.

OPERATIONS REPORT

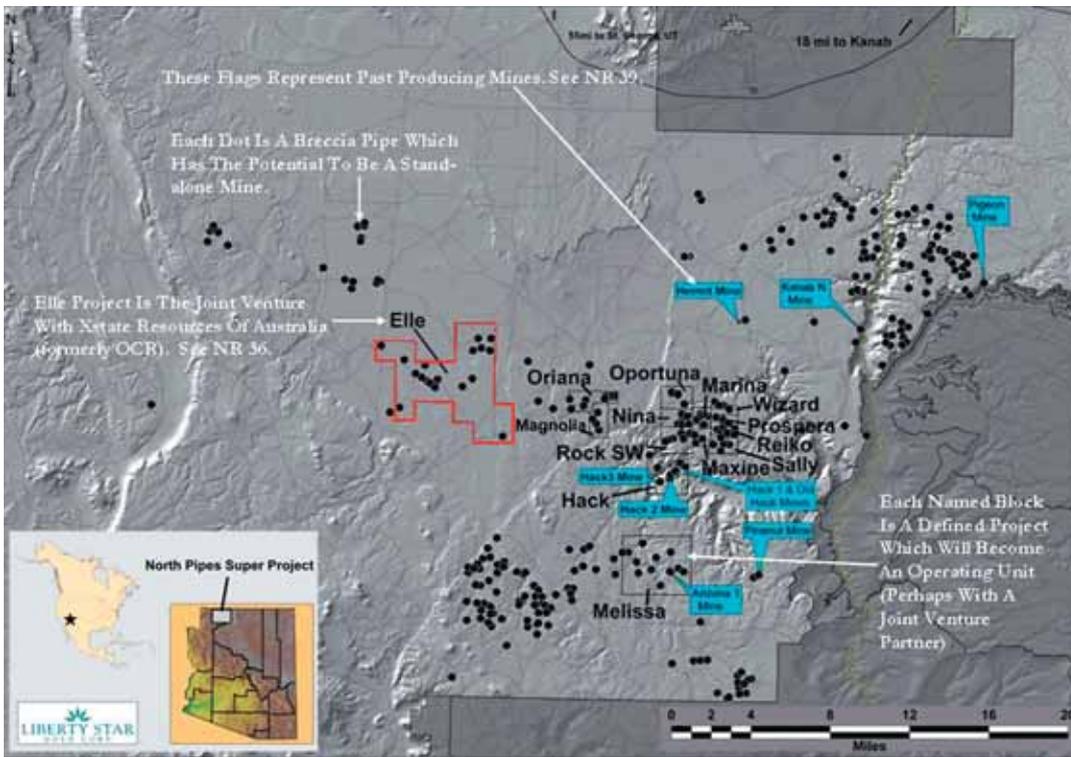


FIGURE 1 North-western Arizona showing the region of the North Pipes Super Project Area.

Mines in this region have produced some 26 million pounds of uranium; some of these known ore bodies have contained as much as 55% uranium (1100 pounds per tonne) in some samples.

Unlike the majority of Australia, uranium exploration and mining can take place in Arizona.

Nuclear power is critical to the expanding US electricity market. In the US there are currently over 103 operating nuclear power stations and the US accounts for over 25% of the world's nuclear power generation capacity, supplying 20% of the country's power needs.

There are a further 24 nuclear plants that are either under construction or are proposed.

Given the prevalence of nuclear reactors and the reliance on nuclear power in the US, this gives further credence to the Company's decision to explore for uranium in Arizona.

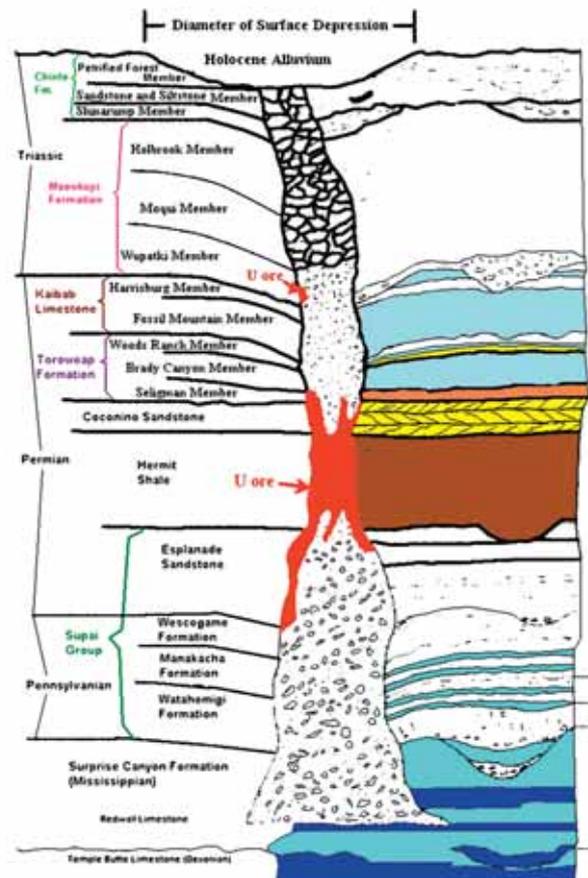


FIGURE 2 Schematic of a typical breccia pipe showing the location of the mineralised zone based on the Orphan and Pigeon Mines operations. (Source: Finch 2004)



A drilling program commenced at the Elle Joint Venture in mid February 2007. The total program will consist of 4,500 feet (1370m) of reverse circulation drilling and 32,160 feet (9800m) of diamond drilling in order to test the three breccia pipes for uranium and other metal mineralisation, indicated by surface geology, geochemistry and geophysics.

The rotary holes are designed to penetrate the centre of each geophysical anomaly. Down hole electrical geophysics will be used to identify additional mineralisation within a 200 to 300 foot (60-90m) radius out from the rotary holes. Each rotary hole will then be entered by an NQ size (2.2 inch diameter (5.5cm)) diamond core drill directional diamond core holes will be drilled toward the mineral targets defined by the in-hole geophysics. The budget plans for forty eight diamond core holes.

This program will be administered by Liberty Star for the joint venture. It is expected to cost less than half of standard drilling approaches and the intention is to define resources in the three pipes to be tested.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

The Board of directors of XState Resources Limited has adopted the following set of principles for the corporate governance of the Company. These principles establish the framework of how the Board carries out its duties and obligations on behalf of the shareholders.

ASX BEST PRACTICE RECOMMENDATIONS

The ASX Listing Rules require listed companies to include in their annual report a statement disclosing the extent to which they have complied with the ASX Best Practice Recommendations in the reporting period. These recommendations are guidelines designed to produce an efficient, quality or integrity outcome. The recommendations are not prescriptive so that if a company considers that a recommendation is inappropriate having regard to its particular circumstances, the company has the flexibility not to follow it. Where a company has not followed all the recommendations, the annual report must identify which recommendations have not been followed and give reasons for not following them.

Details have been included at the end of this statement setting out the ASX Best Practice Recommendations with which the Company has not complied in the reporting period.

Details of the Company's corporate governance practices in the relevant reporting period are set out below.

THE BOARD OF DIRECTORS

ROLE OF THE BOARD

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

- the establishment of the long term goals of the Company and strategic plans to achieve those goals;
- monitoring the achievement of these goals;
- the review of management accounts and reports to monitor the progress of the Company;
- the review and adoption of budgets for the financial performance of the Company and monitoring the results on a regular basis to assess performance;
- the review and approval of the annual and half-year financial reports;
- nominating and monitoring the external auditor;
- approving all significant business transactions;
- appointing and monitoring senior management;
- all remuneration, development and succession issues; and

- ensuring that the Company has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities.

The Board evaluates this policy on an ongoing basis.

DIRECTOR EDUCATION

The Company has a process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the Company concerning the performance of directors.

Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

BOARD COMPOSITION

The Directors' report contains details of the directors' skill, experience and education. The Board seeks to establish a Board that consists of directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Company's business with excellence. To maintain this, the Company'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.

The Board is primarily responsible for identifying potential new directors but has the option to use an external consulting firm to identify and approach possible new candidates for directorship. The selection of the directors must be approved by the majority of the shareholders.

RETIREMENT AND RE-ELECTION OF DIRECTORS

The Constitution of the Company requires one third of directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board 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 three directors in office at the date of this report and considers that all of the directors are independent. In considering whether a director is independent, the Board has regard to the independence criteria in ASX Best Practice Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of the other directors, as appropriate.

INDEPENDENT PROFESSIONAL ADVICE

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

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, his performance and other matters identified by the Board or other directors. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a director's performance.

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

DIRECTOR REMUNERATION

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

Executive directors may be remunerated by both fixed remuneration and equity performance based remuneration and no termination payments will be agreed other than a reasonable period of notice of termination as detailed in the executive's employment contract.

MANAGING BUSINESS RISK

The Company maintains policies and practices designed to identify and manage significant business risks, including:

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

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

The Board receives regular reports about the financial condition and operating results of the consolidated group. The Chief Executive Officer and Chief Financial Officer annually provide a formal statement to the Board that in all material respects and to the best of their knowledge and belief:

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

INTERNAL CONTROLS

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

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

AUDIT COMMITTEE

Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee of the Board, however meetings are held throughout the year between the Company Secretary, Mr David McArthur, the board and/or board members as appropriate and the Company's auditors to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

The Board has not formalised any procedures for the selection, appointment or rotation of its external auditor but reviews this matter on an ongoing basis and implements changes as required.

ETHICAL STANDARDS

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

CORPORATE GOVERNANCE STATEMENT

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.

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

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

CONTINUOUS DISCLOSURE

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

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

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

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

SHAREHOLDERS

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

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

ASX BEST PRACTICE RECOMMENDATIONS

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

Recommendation 2.4: The Board should establish a Nomination Committee.

The functions to be performed by a nomination committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of

members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Recommendation 2.5: Provide the information indicated in "Guide to reporting on Principle 2".

One of the matters to be included in the corporate governance section of the annual report pursuant to the *Guide to reporting on Principle 2* is "the names of members of the nomination committee and their attendance at meetings of the committee". As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish a nomination committee and therefore this information has not been included in the annual report or otherwise made publicly available. In all other respects, the Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 2* by the inclusion of information in this Statement, but has not otherwise made the information publicly available.

Recommendation 4.2: The Board should establish an Audit Committee.

Recommendation 4.3: Structure of the Audit Committee so that it consists of:

- only Non-Executive Directors;
- a majority of Independent Directors;
- an independent Chairperson, who is not chairperson of the Board;
- at least three members.

Recommendation 4.4: The Audit Committee should have a formal charter.

The functions to be performed by an audit committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee of the Board, however meetings are held between senior management and the auditors throughout the year to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto. In doing so, the Board also adheres to the Company's Code of Conduct and procedures to ensure independent judgement in decision making, as set out in relation to ASX Best Practice Recommendation 2.1. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Recommendation 4.5: Provide the information indicated in "Guide to reporting on Principle 4".

The *Guide to reporting on Principle 4* requires that the corporate governance section of the annual report include "details of the names and qualifications of those appointed to the audit committee". As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish an audit committee and therefore this information has not been included in the annual report. However as the Board fulfils the role of the audit committee, details of the Company's directors and their attendance at Board meetings are set out in the Company's annual report. In all other respects, the Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 4*.

Recommendation 9.2: The Board should establish a Remuneration Committee.

The functions to be performed by a remuneration committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Recommendation 9.5: Provide the information indicated in "Guide to reporting on Principle 9".

One of the matters to be included in the corporate governance section of the annual report pursuant to the *Guide to reporting on Principle 9* is "the names of members of the remuneration committee and their attendance at meetings of the committee". As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish a remuneration committee and therefore this information has not been included in the annual report. However as the Board fulfils the role of the remuneration committee, details of the Company's directors and their attendance at Board meetings are set out in the Company's annual report. In all other respects, the Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 9*.

DIRECTORS' REPORT

The Directors present their report together with the financial report of XState Resources Limited ("the Company"), for the year ended 31 December 2006 and the auditor's report thereon.

DIRECTORS

The names and details of the Directors in office during or since the end of the financial year are:

ROSS KESTEL Non-executive chairman

Mr Kestel, aged 52, is both a Chartered Accountant and Certified Practising Accountant, and has been a director of the accounting practice Nissen Kestel Harford since July 1980. He has acted as a director and company secretary of a number of public companies involved in mineral exploration, mining, mine services, property development, manufacturing and technology industries.

Mr Kestel is a member of the audit committees of a number of ASX-listed companies and a member of the compliance committees of a number of managed investment schemes. He has also assisted in the listing of a significant number of companies on ASX.

Mr Kestel is a Registered Company Auditor and a member of the Institute of Company Directors.

Appointed 6 September 2006.

DAVID MCARTHUR Executive director

Mr McArthur, aged 49, has a Bachelor of Commerce Degree from the University of Western Australia.

Mr McArthur is a Chartered Accountant, having spent four years with a major international accounting firm, and has over 27 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 23 years.

Mr McArthur has focused on the mining industry, and is currently an executive director of gold producer Dioro Exploration NL and uranium explorer Ellendale Resources NL. He is also company secretary of 11 public listed companies, and has held numerous public company executive directorships.

Mr McArthur has substantial experience in capital raisings, company re-organisations and restructuring, mergers and take overs, and asset acquisitions by public companies.

Appointed 6 September 2006.

DOUGLAS WOOD Non-executive director

Mr Wood, aged 62, is a Chartered Accountant and a Fellow of the Taxation Institute of Australia. He has over 32 years' experience in the accounting and taxation profession and has been involved in the management of public companies for many years, fulfilling the roles of chairman and managing director.

Appointed 20 September 2006.

MICHAEL TAVERNER Non-executive director

Mr Taverner was appointed 12 May 2004 and resigned 20 September 2006.

ANTHONY CRIMMINS Non-executive director

Mr Crimmins was appointed 30 November 2004 and resigned 20 September 2006.

GREGORY BENDER Non-executive director

Dr Bender was appointed 30 November 2004 and resigned 7 April 2006.

DAVID ROCHE Non-executive director

Mr Roche was appointed 7 April 2006 and resigned 20 September 2006.

DIRECTORSHIPS OF OTHER LISTED COMPANIES

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
R Kestel	Retail Star Limited	August 2006 – current
	Reco Financial Services Limited	June 2006 – current
	VDM Group Limited	August 2005 – current
	DVM International Limited	April 2005 – current
	Northern Mining Limited	April 2005 – current
	Jabiru Metals Limited	August 2003 – current
	Equigold NL	April 2003 – current
	Conquest Mining Limited	February 1999 – May 2006
	Orchid Capital Limited	April 2002 – July 2005
	Lowan Australia Limited	June 2002 – April 2005
	Bore Medical Limited	December 2003 – November 2004
D McArthur	AquaCarotene Limited	2007 – current
	Ellendale Resources NL	1999 – current
	Dioro Exploration NL	1991 – current
D Wood	AFT Corporation Limited	2004 – current
	AquaCarotene Limited	2002 – current
	Ellendale Resources NL	2001 – current

COMPANY SECRETARY

David McArthur is a chartered accountant and was appointed on 29 October 1999. Mr McArthur has 27 years experience in the corporate management of public companies.

PRINCIPAL ACTIVITY

The principal activity of the Company is the exploration and evaluation of mineral interests.

RESULTS

The net loss of the Company, after income tax, for the year ended 31 December 2006 was \$243,349 (2005 loss: \$57,111).

DIVIDENDS

Since the end of the previous financial year no dividends have been paid or declared by the Company and the Directors of the Company recommend that no dividend be provided for the year ended 31 December 2006.

SUMMARY OF MATERIAL TRANSACTIONS

On 17 July 2006 the Company entered into a joint venture agreement with Liberty Star Gold Corp Inc to explore and possibly mine certain uranium mineral leases located in Arizona, USA.

On 18 August 2006 shareholders approved the issue of 6,000,000 fully paid ordinary shares at 4 cents each to raise \$240,000 in working capital.

On 6 September 2006 shareholders approved the change in the Company's activities, and approved the change of name to XState Resources Limited. Shareholders also approved the issue of up to 30,000,000 ordinary shares at 20 cents each to raise up to \$6 million in working capital.

On 2 November 2006 the Company issued a prospectus to issue 30,000,000 shares at 20 cents each.

On 4 December 2006 the Company advised that it had received \$6,000,000 in applications. A further 1,500,000 shares were issued at 20 cents to raise an additional \$300,000.

DIRECTORS' REPORT

On 15 December 2006 the Company was re-instated to official trading on the ASX.

On 20 December 2006 the Company invested US\$2.9 million (A\$3,690,037) to the XState Arizona Inc entity, thereby earning a 50% interest in the joint venture.

CHANGES IN THE STATE OF AFFAIRS

On 6 September 2006 shareholders approved the change in the nature and scale of the Company's activities to an explorer and potential producer of resources.

EVENTS SUBSEQUENT TO BALANCE DATE

No events of a material nature have occurred subsequent to year-end.

LIKELY DEVELOPMENTS

The Company will focus on the exploration of possible uranium bearing tenements in Arizona, USA.

Shareholder approval will be sought for any such transactions.

DIRECTORS' INTERESTS IN EQUITY INSTRUMENTS

The Directors held the following interests in securities in the Company at the date of this report:

	FULLY PAID ORDINARY SHARES	
	DIRECT INTEREST	RELEVANT INTEREST
Ross Kestel	Nil	Nil
David McArthur *	1,000,000	Nil
Douglas Wood *	Nil	918,000

* The wife of Mr McArthur holds 175,000 shares and the wife of Mr Wood holds 625,000 shares.

DIRECTORS' MEETINGS

During the year there were 13 formal meetings of the Directors, including 11 circulating resolutions, pursuant to the Company's Constitution.

The attendance of Directors was as follows:

	BOARD MEETING	
	ATTENDED	POSSIBLE ATTENDED
R Kestel	6	6
D McArthur	5	5
D Wood	5	5
M Taverner	7	7
G Bender	-	-
A Crimmins	7	7
D Roche	6	6

At the date of this report the Company does not have a separately constituted audit committee, nomination committee or remuneration committee due to its size. Regular liaison between Directors and auditors takes place.

SHARE OPTIONS

6,725,000 unlisted options remained unexercised at 31 December 2006, such options are exercisable at 20 cents by 30 June 2007. During the year 150,000 of the unlisted options were exercised. A further 1,400,000 options have been exercised subsequent to year end.

REMUNERATION REPORT

The Company has a Remuneration Policy which aims to provide compensation which is fair and equitable in terms of external competitiveness. The policy is determined by the Board and administered by management at its discretion.

The policy relates individual compensation to individual performance, the individual's position in the relevant salary market and the need for the organisation to retain and motivate the individual.

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

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

Details of the nature and amount of each element of the compensation of each of the directors, being the key management personnel, and relevant group executives of the Company are shown below:

	YEAR	SHORT-TERM		POST-EMPLOYMENT	SHARE-BASED PAYMENTS	TOTAL \$
		FEES & SALARY \$	NON-MONETARY BENEFITS \$	SUPERANNUATION \$	OPTIONS & RIGHTS \$	
R Kestel ¹	2006	15,834	-	-	-	15,834
<i>Non-executive chairman</i>	2005	-	-	-	-	-
D McArthur ¹	2006	25,549	-	2,171	-	27,720
<i>Executive director & company secretary</i>	2005	-	-	-	-	-
D Wood ¹	2006	12,200	-	1,029	-	13,229
<i>Non-executive director</i>	2005	-	-	-	-	-
M Taverner ²	2006	-	-	-	-	-
<i>Non-executive director</i>	2005	-	-	-	-	-
A Crimmins ²	2006	-	-	-	-	-
<i>Non-executive director</i>	2005	-	-	-	-	-
G Bender ²	2006	-	-	-	-	-
<i>Non-executive director</i>	2005	-	-	-	-	-
D Roche ²	2006	-	-	-	-	-
<i>Non-executive director</i>	2005	-	-	-	-	-
Totals	2006	53,583	-	3,200	-	56,783
	2005	-	-	-	-	-

1 Appointed during the 2006 financial year.

2 Resigned during the 2006 financial year.

The Company does not employ any executive officers other than the directors.

SERVICE AGREEMENTS

Since the end of the previous financial period no director of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of compensation received or due and receivable by directors shown in the accounts), by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as follows:

Mr McArthur was employed pursuant to an Executive Services Agreement entered into on 26 October 2006 for a 3 year term. Pursuant to the agreement Mr McArthur received a salary of \$75,000 per annum plus statutory entitlements. The contract allows for six months termination, with six months of the contract to be paid out if terminated by the Company.

DIRECTORS' REPORT

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year the Company entered into an indemnity, insurance and access deed to indemnify any director of the Company or of any related body corporate against a liability incurred in acting as a director. The Company has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor of the Company.

NON-AUDIT SERVICES

The directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the directors to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 '*Professional Independence*', as they did not involve reviewing or auditing the auditors 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 amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below:

	COMPANY	
	2006	2005
	\$	\$
Audit and review of financial reports	18,320	9,729
Other services	12,000	-
	<u>30,320</u>	<u>9,729</u>

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The auditor's independence declaration is included immediately after this and forms part of the Directors' Report for the year ended 31 December 2006.

This report has been made in accordance with a resolution of Directors.

For and on behalf of the Board.



D M McARTHUR

Director

22 March 2007

Perth, Western Australia

AUDITOR'S INDEPENDENCE DECLARATION



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 2006 there have been:

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

KPMG
KPMG

J G Robinson
J G Robinson
Partner

Perth
Dated: *23/3/07*

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	COMPANY	
		2006 \$	2005 \$
Other income	2	3,340	43,625
Administration fees		(17,024)	(7,081)
Employee benefits expense	3	(56,783)	-
Professional fees	3	(144,188)	(75,380)
Share registry and statutory fees		(35,420)	(17,647)
Other expenses		-	(643)
Results from operating activities		<u>(250,075)</u>	<u>(57,126)</u>
Financial income		6,726	15
Financial expenses		-	-
Net financing income		<u>6,726</u>	<u>15</u>
Loss before income tax		<u>(243,349)</u>	<u>(57,111)</u>
Income tax expense	5	-	-
Net loss attributable to equity holders		<u>(243,349)</u>	<u>(57,111)</u>
Basic loss per share (cents per share)	6	(1.40)	(0.96)
Diluted loss per share (cents per share)		<u>(1.12)</u>	<u>(0.96)</u>

BALANCE SHEET

AS AT 31 DECEMBER 2006

	NOTES	COMPANY	
		2006 \$	2005 \$
CURRENT ASSETS			
Cash and cash equivalents	8	2,351,432	63,609
Trade and other receivables	9	39,323	989
Other	10	35,941	9,362
TOTAL CURRENT ASSETS		2,426,696	73,960
NON-CURRENT ASSETS			
Investments in equity accounted investees	11	3,867,789	-
TOTAL NON-CURRENT ASSETS		3,867,789	-
TOTAL ASSETS		6,294,485	73,960
CURRENT LIABILITIES			
Trade and other payables	12	101,435	14,940
Provisions	13	2,211	-
Loans	15	22,467	-
TOTAL CURRENT LIABILITIES		126,113	14,940
NON-CURRENT LIABILITIES			
Convertible notes	14	-	550,000
Loans	15	-	22,467
TOTAL NON-CURRENT LIABILITIES		-	572,467
TOTAL LIABILITIES		126,113	587,407
NET ASSETS/(LIABILITIES)		6,168,372	(513,447)
EQUITY			
Issued capital	16	31,554,265	24,629,097
Accumulated losses		(25,385,893)	(25,142,544)
TOTAL EQUITY/(DEFICIT)		6,168,372	(513,447)

The balance sheet is to be read in conjunction with the notes to the financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	ISSUED CAPITAL \$	ACCUMULATED LOSSES \$	TOTAL \$
COMPANY			
At 1 January 2006	24,629,097	(25,142,544)	(513,447)
Loss for the period	-	(243,349)	(243,349)
Issue of ordinary shares	6,540,000	-	6,540,000
Exercise of convertible notes	550,000	-	550,000
Exercise of unlisted options	30,000	-	30,000
Capital raising costs	(194,832)	-	(194,832)
At 31 December 2006	<u>31,554,265</u>	<u>(25,385,893)</u>	<u>6,168,372</u>
At 1 January 2005	24,479,097	(25,085,433)	(606,336)
Loss for the period	-	(57,111)	(57,111)
Issue of ordinary shares	150,000	-	150,000
At 31 December 2005	<u>24,629,097</u>	<u>(25,142,544)</u>	<u>(513,447)</u>

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	COMPANY	
		2006 \$	2005 \$
Cash flows from operating activities			
Interest received		6,726	15
Payments to suppliers and employees		(229,328)	(73,980)
Net cash flows used in operating activities	18(b)	<u>(222,602)</u>	<u>(73,965)</u>
Cash flows from investing activities			
Payments for investments		(3,867,790)	-
Repayment of loans – other entities		3,047	-
Net cash flows from investing activities		<u>(3,864,743)</u>	<u>-</u>
Cash flows from financing activities			
Proceeds from issue of shares		6,570,000	150,000
Capital raising costs		(194,832)	-
Repayment of loan		-	(16,533)
Net cash flows from financing activities		<u>6,375,168</u>	<u>133,467</u>
Net increase in cash and cash equivalents		2,287,823	59,502
Cash and cash equivalents at the beginning of the financial year		63,609	4,107
Cash and cash equivalents at the end of the financial year	18(a)	<u>2,351,432</u>	<u>63,609</u>

The statement of cash flows is to be read in conjunction with the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

XState Resources Limited (the "Company") is a company domiciled in Australia.

The financial report was authorised for issue by the directors on 22 March 2007.

STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASB's") adopted by the Australian Accounting Standards Board and the Corporations Act 2001.

BASIS OF PREPARATION

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis and except where stated, does not take into account changing money values or fair values of non-current assets.

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

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

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

The following standards, amendments to standards and interpretations are available for early adoption at 31 December 2006 but have not been applied in preparing these financial statements:

STANDARD	AASB REF	FOR PERIOD STARTING
AASB 101: Presentation of Financial Statements	2005-10	1 Jan 07
AASB 114: Segment Reporting	2005-10	1 Jan 07
AASB 117: Leases	2005-10	1 Jan 07
AASB 132: Financial Instruments Disclosure and Presentation	2005-10	1 Jan 07
AASB 133: Earnings per Share	2005-10	1 Jan 07
AASB 139: Financial Instruments Recognition and Measurement	2005-10	1 Jan 07
AASB 7: Financial Instruments Disclosures	AASB 7	1 Jan 07
AASB 1: First Time Adoption of AIFRS	2005-10	1 Jan 07
AASB 4: Insurance Contracts	2005-10	1 Jan 07
AASB 2: Share-based Payment	UIG 8	1 May 06

Early adoption of the standards has no financial impact on the Company.

BASIS OF ACCOUNTING

The financial statements are prepared on a going concern basis, rather than a realisation basis, as it was in the 31 December 2005 annual report. There are no adjustments to the balance sheet or the income statement as a result of this change in accounting policy.

SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been adopted in the preparation and presentation of the financial report and have been applied consistently to all periods presented in these financial statements:

(a) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in banks.

(b) GOODS AND SERVICES TAX

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

Receivables and payables are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

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

(c) FINANCIAL INCOME AND EXPENSES

Financial income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Financial expenses comprise interest expense on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

(d) INCOME TAX

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(e) TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at cost less impairment.

Impairment is assessed by reviewing the collectibility of debts at each balance date and making specific provision for any doubtful accounts.

(f) TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

(g) EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the net loss attributable to equity holders for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

NOTES TO THE FINANCIAL STATEMENTS

(h) CONVERTIBLE NOTES

The convertible notes are compound financial instruments that should be split between a debt and equity component.

The convertible notes are carried at face value which is believed to reflect its fair value at balance date due to the inability of the Company to repay this debt and the likely renegotiation of the convertible notes on maturity date.

(i) LOANS

These loans are unsecured and interest-free. These loans will not be called for repayment until such time that the Company will be in a position financially able to do so.

The notional amount is deemed to reflect the fair value as the loan is callable at the discretion of the issuer.

(j) FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in the income statement.

(k) JOINTLY CONTROLLED ENTITIES (EQUITY ACCOUNTED INVESTEEES)

Investments in jointly controlled entities are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount.

The Company's share of the jointly controlled entity's net profit or loss is recognised in the income statement from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in the reserves.

(l) IMPAIRMENT

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment

loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) EMPLOYEE BENEFITS

Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date including related on-costs.

(n) FOREIGN CURRENCY

Foreign operations

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

Foreign currency differences are recognised directly in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

2. OTHER INCOME

Legal fees reimbursed
Other

NOTES	COMPANY	
	2006 \$	2005 \$
(i)	-	43,625
	3,340	-
	<u>3,340</u>	<u>43,625</u>

(i) Legal fees were refunded to the Company after the case against them was defended successfully.

3. EXPENSES

Employee benefits expense

Directors' fees
Management fees
Superannuation

(i)	28,034	-
(i)	25,549	-
	3,200	-
	<u>56,783</u>	<u>-</u>

(i) Includes amounts accrued for annual leave.

Professional fees

Audit fees
Legal fees
Administration fees
Consultancy fees

	18,320	9,729
	20,351	65,651
	2,285	-
	103,232	-
	<u>144,188</u>	<u>75,380</u>

	COMPANY	
	2006	2005
	\$	\$
8. CASH AND CASH EQUIVALENTS		
Bank balances	2,351,432	63,609
9. TRADE AND OTHER RECEIVABLES		
GST refundable	39,323	989
10. OTHER ASSETS		
Prepayments	35,941	9,362
11. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES		
XState Arizona Inc Joint Venture	3,867,789	-

JOINT VENTURE NAME	PRINCIPAL ACTIVITIES	INTEREST HELD	
		2006	2005
XState Arizona Inc Joint Venture	Uranium exploration	50%	-

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Company:

	COMPANY	
	2006	2005
	\$	\$
Cash and cash equivalents	2,288,972	-
12. TRADE AND OTHER PAYABLES		
Trade creditors	33,388	8,940
Accruals	65,000	6,000
Other loans	3,047	-
	101,435	14,940
13. PROVISIONS		
Employee entitlements	2,211	-
	NUMBER	NUMBER
Number of employees at end of financial year	2	-
14. CONVERTIBLE NOTES		
	\$	\$
Convertible notes	-	550,000

On 10 May 2004, the Company issued convertible notes to a value of \$550,000, which are unsecured and interest-free. They are convertible to 6,875,000 shares at a subscription price of \$0.08 at the discretion of the noteholder at any time in the 3 year term of the convertible notes or automatically upon the company receiving unconditional approval for its securities to be readmitted to trading on the Australian Stock Exchange.

The convertible notes were converted during the 2006 financial year for a total of 6,875,000 fully paid ordinary shares. 6,875,000 free attaching unlisted options were issued pursuant to the conversion. These options are exercisable at 20 cents each on or before 30 June 2007.

NOTES TO THE FINANCIAL STATEMENTS

	COMPANY	
	2006	2005
	\$	\$
15. LOANS		
Current		
Loans – unsecured	22,467	-
Non-current		
Loans – unsecured	-	22,467

This is an unsecured and interest-free loan.

The notional amount is deemed to reflect the fair value as the loan is callable at the discretion of the issuer.

16. ISSUED CAPITAL

Issued and paid-up capital

53,429,593 fully paid ordinary shares (2005: 8,904,593)	31,554,265	24,629,097
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	COMPANY			
	2006	2005	2006	2005
	NUMBER	NUMBER	\$	\$
Movements during the year				
Balance at beginning of year	8,904,593	5,154,593	24,629,097	24,479,097
Ordinary shares issued at 4 cents	6,000,000	3,750,000	240,000	150,000
Exercise of convertible notes	6,875,000	-	550,000	-
Ordinary shares issued at 20 cents	31,500,000	-	6,300,000	-
Exercise of unlisted options at 20 cents	150,000	-	30,000	-
Capital raising costs	-	-	(194,832)	-
Balance at end of year	53,429,593	8,904,593	31,554,265	24,629,097

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

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

17. FINANCIAL INSTRUMENTS

(a) Interest rate risk

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	AVERAGE INTEREST RATE %	VARIABLE INTEREST RATE \$	NON-INTEREST BEARING \$	TOTAL \$
2006				
Financial Assets	5.75	2,351,432	-	2,351,432
Cash and cash equivalents	-	-	39,323	39,323
Trade and other receivables		2,351,432	39,323	2,390,755
Financial Liabilities				
Trade and other payables	-	-	101,435	101,435
Loans	-	-	22,467	22,467
		-	123,902	123,902
2005				
Financial Assets				
Cash and cash equivalents	-	-	63,609	63,609
Trade and other receivables	5.62	-	989	989
		-	64,598	64,598
Financial Liabilities				
Trade and other payables	-	-	14,940	14,940
Convertible notes	-	-	550,000	550,000
Loans	-	-	22,467	22,467
		-	587,407	587,407

No other financial assets or liabilities attract interest.

(b) Credit risk

The Company has minimum credit risk exposure in relation to trade and other receivables due to the single debtor being the Australian Taxation Office.

(c) Foreign currency risk

The Company is exposed to foreign currency risk on joint venture expenses that are denominated in US dollars.

(d) Net fair values of financial assets and liabilities

Financial assets and liabilities in the balance sheet are carried at amounts which represent their fair values.

The major methods and assumptions in determining fair value is discussed in Note 1.

NOTES TO THE FINANCIAL STATEMENTS

18. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash at bank. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related item in the balance sheet as follows:

	NOTE	COMPANY	
		2006 \$	2005 \$
Cash and cash equivalents	8	2,351,432	63,609
(b) Reconciliation of net loss attributable to equity holders to net cash used in operating activities			
Net loss attributable to equity holders		(243,349)	(57,111)
Changes in assets and liabilities:			
(Increase)/decrease in receivables		(38,334)	573
Increase in other current assets		(26,579)	(2,653)
Increase/(decrease) in payables		83,449	(14,774)
Increase in provisions		2,211	-
Net cash used in operating activities		(222,602)	(73,965)

19. RELATED PARTIES

(a) Details of Key Management Personnel

Ross Kestel	–	Non-executive Chairman
David McArthur	–	Executive Director and Company Secretary
Douglas Wood	–	Non-executive Director

(b) Remuneration of Key Management Personnel by the Company

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

The policy relates individual remuneration to individual performance, the individual's position in the relevant salary market and the need for the organisation to retain and motivate the individual.

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

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

	YEAR	SHORT-TERM		POST-EMPLOYMENT	SHARE-BASED PAYMENTS	TOTAL
		FEES & SALARY \$	NON-MONETARY BENEFITS \$	SUPERANNUATION \$	OPTIONS & RIGHTS \$	
R Kestel ¹	2006	15,834	-	-	-	15,834
<i>Non-executive chairman</i>	2005	-	-	-	-	-
D McArthur ¹	2006	25,549	-	2,171	-	27,720
<i>Executive director & company secretary</i>	2005	-	-	-	-	-
D Wood ¹	2006	12,200	-	1,029	-	13,229
<i>Non-executive director</i>	2005	-	-	-	-	-
M Taverner ²	2006	-	-	-	-	-
<i>Non-executive director</i>	2005	-	-	-	-	-
A Crimmins ²	2006	-	-	-	-	-
<i>Non-executive director</i>	2005	-	-	-	-	-
G Bender ²	2006	-	-	-	-	-
<i>Non-executive director</i>	2005	-	-	-	-	-
D Roche ²	2006	-	-	-	-	-
<i>Non-executive director</i>	2005	-	-	-	-	-
Totals	2006	53,583	-	3,200	-	56,783
	2005	-	-	-	-	-

1 Appointed during the 2006 financial year.

2 Resigned during the 2006 financial year.

The Company does not employ any executive officers other than the directors.

Company secretarial work and financial services are provided by Broadway Management (WA) Pty Ltd (refer to Note 19(e) for further discussion).

Service agreements

Since the end of the previous financial period no director of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of compensation received or due and receivable by directors shown in the accounts), by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as follows:

Mr McArthur was employed pursuant to an Executive Services Agreement entered into on 26 October 2006 for a 3 year term. Pursuant to the agreement Mr McArthur received a salary of \$75,000 per annum plus statutory entitlements. The contract allows for six months termination, with six months of the contract to be paid out if terminated by the Company.

NOTES TO THE FINANCIAL STATEMENTS

19. RELATED PARTIES (continued)

(c) Compensation by category for Key Management Personnel

	COMPANY	
	2006 \$	2005 \$
Short-term	53,583	-
Post employment	3,200	-
Share-based payments	-	-
	<u>56,783</u>	<u>-</u>

(d) Equity instruments

Unlisted option holdings

At year end, none of the key management personnel held any options in the Company, directly, indirectly or beneficially.

There was no movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties.

Equity holdings and transactions

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

	HELD AT BEGINNING OF YEAR	PURCHASES	RECEIVED ON EXERCISE OF OPTIONS	SALES	OTHER CHANGES	HELD AT END OF YEAR
2006						
R Kestel ¹	-	-	-	-	-	-
D McArthur ¹	-	-	-	-	-	-
D Wood ¹	782,000	136,000	-	-	-	918,000
M Taverner ²	-	-	-	-	-	-
A Crimmins ²	-	-	-	-	-	-
G Bender ²	-	-	-	-	-	-
D Roche ²	-	-	-	-	-	-
2005						
R Kestel ¹	-	-	-	-	-	-
D McArthur ¹	-	-	-	-	-	-
D Wood ¹	-	-	-	-	-	-
M Taverner ²	-	-	-	-	-	-
A Crimmins ²	-	-	-	-	-	-
G Bender ²	-	-	-	-	-	-
D Roche ²	-	-	-	-	-	-

1 Messers Kestel, McArthur and Wood were appointed during the 2006 financial year.

2 Messers Taverner, Crimmins, Bender and Roche resigned during the 2006 financial year.

(e) **Other transactions with Key Management Personnel**

On 27 October 2006 the Company entered into an agreement with Broadway Management (WA) Pty Ltd, a corporate administration company of which Mr McArthur and Mr Wood are directors, for administration and corporate compliance services including the provision of a registered office and principal place of business, for \$50,000 per annum.

20. EVENTS SUBSEQUENT TO BALANCE DATE

There were no events of a material nature that occurred subsequent to year end.

DIRECTORS' DECLARATION

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

- (a) the financial statements and notes, set out on pages 16 to 31, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company as at 31 December 2006 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) the directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief financial officer for the financial year ended 31 December 2006.

Signed in accordance with a resolution of the Directors.

For and on behalf of the Board.



D M McARTHUR

Director

22 March 2007

Perth, Western Australia



Independent audit report to members of Xstate Resources Limited (formerly Oriental Crystal)

Scope

The financial report and directors' responsibility

The financial report comprises the income statement, statement of changes in equity, balance sheet, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Xstate Resources Limited (the "Company"), for the year ended 31 December 2006.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit opinion

In our opinion, the financial report of Xstate Resources Limited is in accordance with:

- a) the Corporations Act 2001, including:

INDEPENDENT AUDIT REPORT



- i. giving a true and fair view of the Company's financial position as at 31 December 2006 and of its performance for the financial year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

KPMG
KPMG

G Roberson
G Roberson
Partner

Perth
Dated: 22/3/07

STOCK EXCHANGE INFORMATION

The following information is provided in accordance with the Listing Rules of Australian Stock Exchange Limited.

1. SHAREHOLDER INFORMATION

(a) DISTRIBUTION OF HOLDERS AT 27 MARCH 2007

	FULLY PAID SHARES	OPTIONS EXPIRING 30 JUNE 2007
Number of Holders	1,370	8
Distribution is:		
1 - 1,000	659	-
1,001 - 5,000	151	-
5,001 - 10,000	144	-
10,001 - 100,000	320	-
100,001 and Over	96	8
Holding less than a marketable parcel	954	N/A

(b) VOTING RIGHTS

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

(c) SUBSTANTIAL SHAREHOLDERS

The Company's register of substantial shareholders shows the following:

SHAREHOLDER	NUMBER OF SHARES
Suburban Holdings Pty Ltd	4,000,000
Credit Suisse Holdings (Australia) Limited	2,761,478

(d) SHAREHOLDERS

The twenty largest shareholders hold 45.51% of the total issued ordinary shares in the Company as at 27 March 2007.

2. QUOTATION

Listed securities in XState Resources Limited are quoted on all Australian Stock Exchanges.

3. AUDIT COMMITTEE

As at the date of the directors' report the Company did not have a separate audit committee, however meetings are held between senior management and auditors throughout the year to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

STOCK EXCHANGE INFORMATION

4. UNLISTED OPTIONS

The following represent 100% of the 30 June 2007 Unlisted Options on issue, exercisable at 20 cents.

	NAME	NUMBER OF OPTIONS
1.	Mr George Sim	1,350,000
2.	Suburban Holdings Pty Ltd	1,000,000
3.	Mr Joseph Camuglia & Mrs Kirsten Camuglia	675,000
4.	Kay Wood	625,000
5.	Canemooon Investments Pty Ltd	612,500
6.	Armelek Pty Ltd	612,500
7.	Mr Anthony Stephen Crimmins	250,000
8.	Mr Steve Nicols	200,000
		5,325,000

TOP TWENTY SHAREHOLDERS AT 27 MARCH 2007

	NAME	NUMBER OF SHARES	% OF ISSUED SHARES
1.	Suburban Holdings Pty Ltd	4,000,000	7.30
2.	CS Third Nominees Pty Ltd	3,028,000	5.52
3.	Mr George Sim	2,317,000	4.24
4.	Cassa Trading Pty Ltd	2,197,238	4.01
5.	Seek Corporation Pty Ltd	1,250,000	2.28
6.	ANZ Nominees Limited	1,235,252	2.25
7.	Mr James Joseph Decker	1,200,000	2.19
8.	Mr Peter Hough	1,200,000	2.19
9.	Far East Capital Limited	1,000,000	1.82
10.	Mr David McArthur	1,000,000	1.82
11.	Tricom Nominees Pty Ltd	969,163	1.77
12.	Canemooon Investments Pty Ltd	832,500	1.52
13.	Mrs Linda Kerr & Mr Mark Kerr	750,000	1.37
14.	Kay Wood	625,000	1.14
15.	Bond Street Custodians Limited	600,000	1.09
16.	Pokernews Limited	600,000	1.09
17.	Red Boulder Pty Ltd	600,000	1.09
18.	Armelek Pty Ltd	562,500	1.03
19.	Mr Joseph Camuglia & Mrs Kirsten Camuglia	500,000	0.91
20.	Mr Anthony Stephen Crimmins	485,000	0.88
		24,951,653	45.51

Level 2, 45 Stirling Highway

Nedlands WA 6009

Telephone: (08) 9389 8799

Facsimile: (08) 9389 8327



XSTATE RESOURCES LIMITED

ABN 96 009 217 154

NOTICE OF ANNUAL GENERAL MEETING

PROXY FORM

AND

EXPLANATORY MEMORANDUM

Date of Meeting

Wednesday, 30 May 2007

Time of Meeting

11.00am (WST)

Place of Meeting

**Level 2, 45 Stirling Highway
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 the Shareholders of XState Resources Limited will be held at Level 2, 45 Stirling Highway, Nedlands on Wednesday, 30 May 2007 at 11.00am.

In order to determine voting entitlements, the register of Shareholders will be closed at 11.00am Monday, 28 May 2007.

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

AGENDA

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

ORDINARY BUSINESS

2006 Accounts

To receive and consider the Directors' report and income statement for the year ended 31 December 2006, the balance sheet at that date, the Auditors' report and the Directors' declaration on the accounts.

Non-binding Ordinary Resolution 1: Directors' Remuneration Report

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

"That pursuant to and in accordance with section 250R (2) of the Corporations Act the Directors' Remuneration Report contained within the Directors' Report be adopted."

Ordinary Resolution 2: Re-election of a Director

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

"That Mr Ross Kestel, a director retiring by rotation in accordance with clause 12.2 of the Company's Constitution, is re-elected a director of the Company."

Ordinary Resolution 3: Election of a Director

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

"That Mr Rhod Grivas, a director who, having been appointed since the last Annual General Meeting, and retires in accordance with the Company's Constitution, is elected a director of the Company."

Ordinary Resolution 4: Approval of grant of Options to Mr Rhod Grivas

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

“That, for the purposes of ASX Listing Rule 10.11, Chapter 2E of the Corporations Act, the Company’s Constitution and for all other purposes, approval is given for the Company to grant and allot 1,000,000 Options to Mr Rhod Grivas (or his permitted nominee) on the terms and conditions set out in the Explanatory Memorandum that forms part of this Notice of Annual General Meeting”.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Grivas and any associate of Mr Grivas.

Ordinary Resolution 5: Ratification of Share Issue

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

“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, the Company ratifies the allotment and issue of 1,500,000 fully paid ordinary shares in the capital of the Company at an issue price of 20 cents each on the terms and conditions set out in the Explanatory Memorandum.”

Special Resolution 6: Disposal of less than a Marketable Parcel of Shares

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

“That, pursuant to clause 2.15 of the Company’s Constitution, shareholders invoke clauses 2.13 and 2.14 of the Company’s Constitution giving the Company the right, but not the obligation, to dispose of less than Marketable Parcels of shares, such approval for a period of 12 months from the date of the meeting.”

By Order of the Board



D M McARTHUR

Company Secretary

Dated: 10 April 2007

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

EXPLANATORY MEMORANDUM

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

The Directors of the Company (“**Directors**”) recommend shareholders read this Explanatory Memorandum in full before making any decision in relation to the resolutions.

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

NON-BINDING ORDINARY RESOLUTION 1 – Directors’ Remuneration Report

Pursuant to Section 250R (2) of the Corporations Act, a resolution adopting the Directors’ Remuneration Report contained within the Directors’ Report must be put to the vote of the Company.

Shareholders are advised that pursuant to Section 250R (3) of the Corporations Act, this resolution is advisory only and does not bind the Directors or the Company.

The Director’s Remuneration Report is set out within the Director’s Report. The Report:

- explains the Board’s policy for determining the nature and amount of remuneration of executive and non executive Directors and senior executives of the Company;
- sets out remuneration details for each Director and the 4 most highly remunerated senior executives of the Company;
- details and explains any performance conditions applicable to the remuneration of executive Directors and senior executives of the Company; and
- provides an explanation of share based compensation payments for each Director and senior executives of the Company.

A reasonable opportunity will be provided for discussion of the Directors’ Remuneration Report at the Meeting.

The Board unanimously recommends that shareholders vote in favour of adopting the Directors’ Remuneration Report.

ORDINARY RESOLUTION 2 – Re-election of Mr Ross Kestel as a Director of the Company

Clause 12.2 of the Company’s Constitution provides that at every Annual General Meeting of the Company one-third of the Directors (other than alternate Directors and the Managing Director) shall retire from office. The Directors to retire at an Annual General Meeting are those who have been longest in office since their last election. A retiring Director is eligible for re-election.

Accordingly, pursuant to Clause 12.2 of the Company’s Constitution, Ross Kestel, being a Director of the Company, retires by way of rotation and, being eligible, offers himself for re-election as a Director of the Company.

ORDINARY RESOLUTION 3 – Election of Mr Rhod Grivas as a Director of the Company

Rule 12.4 of the Company’s Constitution provides that any Director appointed since the last Annual General Meeting shall retire from office and be elected at the next following Annual General Meeting.

Accordingly, pursuant to Rule 12.4 of the Company’s Constitution, Rhod Grivas, retires as a director and offers himself for election as a Director of the Company.

ORDINARY RESOLUTION 4: Grant of Options to Mr Rhod Grivas

Shareholder approval for the grant of Options to Mr Grivas is sought for the purposes of Chapter 2E of the Corporations Act, and ASX Listing Rule 10.11.

Shareholders should note that the practice of granting options to non-executive directors is not in accordance with the ASX Corporate Governance Council’s, *Principles of Good Corporate Governance and Best Practice Recommendations* (recommendation 9.3). For the purposes of this Notice Shareholders should note that Mr Grivas is a non-executive director. However, the Board considers that in view of the financial, legal and other responsibilities assumed by directors of public companies, the payment of monetary director’s fees alone is often not an adequate reward and does not provide an adequate incentive to enable the Company to attract and keep board members and directors of the requisite level of experience and qualifications. The Board considers that equity participation by way of the grant of Options to a technical member of the Board of the Company is appropriate for these purposes. In addition, the Board considers that the issuing of the Options will contribute to the preservation of the Company’s cash reserves.

The object of Resolution 5 is to provide Mr Grivas with a mechanism to participate in the future growth of the Company and an incentive to ensure that the director maintains his future involvement, commitment and loyalty to the Company. The rationale for the decision to grant the Options as set out in Resolution 5 to the Director, subject to Shareholder approval, is that:

1. based on the current issued share capital, the proposal provides the Director with an appropriate equity participation incentive to commit to progressing the Company for the benefit of all Shareholders;
2. based on the experience of the Director, the current market price of the Company’s Shares and the current market practice the number and exercise price of the Options to be granted to the Director was determined to be appropriate by the Board; and
3. non-executive directors are paid total directors fees of \$40,000 per annum, which is at the lower end of the range payable for directors of publicly listed companies. The Options package, currently valued at between \$143,155 and \$184,005 for the Director (see Annexure “B”), is considered to be an appropriate additional incentive and reward for the Director. As noted above, the Board has taken into account that the issuing of Options contributes to the preservation of the Company’s cash reserves.

Terms of Options

Subject to Shareholder approval the proposed Options will be granted in three classes on the terms and conditions set out below:

Option Class	Exercise Price	Expiry Date	Vesting Date
“Class A Option”	50 cents	30 April 2012	Date of meeting
“Class B Option”	65 cents	30 April 2012	29 March 2008
“Class C Option”	75 cents	30 April 2012	29 March 2009

Mr Grivas will receive 300,000 Class A Options, 350,000 Class B Options and 350,000 Class C Options.

The other terms and conditions of the Options are set out in Annexure “A”.

Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act prohibits the Company from giving a financial benefit to a “related party” of the Company unless either:

1. the giving of the financial benefit falls within one of the nominated exceptions to the relevant provisions of the Corporations Act; or
2. prior Shareholder approval is obtained to the giving of the benefit.

The object of Chapter 2E of the Corporations Act is the protection of a public company’s resources. For the purposes of Chapter 2E, Mr Grivas (or his permitted nominee) is considered to be a related party of the Company as he is a director of the Company. The proposed grant of Options involves the provision of a financial benefit to a related party of the Company and therefore requires prior Shareholders approval.

ASX Listing Rule 10.11

ASX Listing Rule 10.11 prohibits the Company from issuing or agreeing to issue equity securities to a related party of the Company, unless one of the exceptions in ASX Listing Rule 10.12 applies.

For the purposes of ASX Listing Rule 10.11, Mr Grivas (or his permitted nominee) is considered to be a related party of the Company and therefore Resolution 5 requires prior Shareholder approval. Information required to be given for the purposes of seeking approval under Resolution 5 is set out separately below.

Dilution Factor

If all of the Options the subject of Resolution 5 are granted and subsequently exercised, then the Company’s fully paid share capital will be diluted. The Company will, however, receive subscription monies totalling \$640,000 if exercised.

The following table demonstrates the dilution of all other Shareholders’ holdings in the Company upon exercise of all Options proposed to be issued in accordance with Resolution 5.

Ordinary Shares on Issue at date of this Explanatory Memorandum	54,829,593
Shares to be issued assuming exercise of all Options the subject of Resolution 5	1,000,000
Total Shares on issue assuming exercise of all Options the subject of Resolution 5	55,829,593
Dilution Effect	1.79%

The market price for Shares during the term of the Options would normally determine whether or not the Options are exercised. If, at any time any of the Options are exercised and the Shares are trading on ASX at a price that is higher than the exercise price of the Options, there may be a perceived cost to the Company. Information on the trading history of the Shares on ASX in the past 12 months is set out below.

Trading History

In the last 12 months (re-instated to official trading 15 December 2006) before the date of this Notice the highest, lowest and latest trading price of Shares on ASX were:

Highest 62 cents on 15 February 2007
Lowest 22.5 cents on 15 December 2006
Last 45 cents on 10 April 2007

ASX Listing Rule 10.11

ASX Listing Rule 10.13 sets out a number of matters which must be included in a notice of meeting proposing an approval under ASX Listing Rule 10.11. For the purposes of ASX Listing Rule 10.13, the following information is provided in addition to the information set out elsewhere in this Explanatory Memorandum, in relation to Resolution 5:

- a) the proposed allottee of the securities to be issued pursuant to Resolution 3 is Mr Rhod Grivas (or his permitted nominee);
- b) the number of Options to be granted to Mr Grivas is 1,000,000 as set out above;
- c) the issue of the Options will occur no later than 1 month after the date of the Meeting, or such longer period as ASX may approve should the Company apply for a waiver of Listing Rule 10.13.3;
- d) as noted above, Mr Grivas is a director of the Company and as such is a related party of the Company;
- e) the Options are to be granted for no consideration and accordingly no funds will be raised from the grant of the Options. The exercise price of the Options will be between 50 cents and 75 cents as set out above; and
- f) the terms of the Options are set out in Annexure "A" of this Explanatory Memorandum.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to grant the Options the subject of Resolution 5 as approval is being obtained under ASX Listing Rule 10.11.

Chapter 2E of the Corporations Act

Section 219 of the Corporations Act sets out a number of matters which must be included in a notice of meeting seeking an approval under section 208. For the purposes of section 219, in addition to the information provided above the following information is provided in relation to Resolution 5:

- a) the related party of the Company to whom the financial benefit is to be given is Mr Grivas;
- b) the nature of the financial benefit to be given is the grant of 1,000,000 Options to subscribe for Shares in the Company for nil consideration on the terms set out above;
- c) Mr Grivas is not entitled and does not wish to make a recommendation to Shareholders about the proposed Resolution 5 because he has an interest in the outcome of the resolution on the basis that he (or his nominee) is the proposed recipient of Options;
- d) Messrs Kestel and McArthur recommend that Shareholders vote in favour of the Company's proposed grant of Options to Mr Grivas (or his nominee) for the reasons set out elsewhere in this Explanatory Memorandum. Messrs Kestel and McArthur do not have any interest in the outcome of Resolution 5;

- e) for an estimate of the value of the Options, please refer to Annexure “B” of this Explanatory Memorandum;
- f) no funds will be raised from the grant of the Options; and
- g) neither the Directors nor the Company are aware of any other information that would be reasonably required by Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 5 other than as set out above or as follows:
 - If all of the Options the subject of this Resolution 5 are exercised, then the Company’s fully paid share capital will be diluted as set out above.
 - As at the date of this Explanatory Memorandum Mr Grivas has a relevant interest in 130,000 shares in the Company being 0.23% of the issue capital of the Company. Mr Grivas receives total remuneration of \$40,000 per annum from the Company.
 - The Directors (other than Mr Grivas) consider that the incentive represented by the grant of Options, is a cost effective and efficient incentive when compared to other forms or incentive such as cash, bonuses or greater remuneration.
 - The primary purpose of the grant of Options is to provide an incentive for Mr Grivas to maintain his future involvement, commitment and loyalty to the Company. Given this purpose, the Directors (other than Mr Grivas) do not consider that there is any opportunity cost or benefit foregone to the Company in granting the Options proposed by Resolution 5.

ORDINARY RESOLUTION 5: Ratification of Previous Issue of 1,500,000 Shares

Listing Rule 7.4

Listing Rule 7.4 permits the ratification of previous issues of securities made without prior shareholder approval, provided the issue did not breach the 15% threshold set by Listing Rule 7.1. The effect of such ratification is to restore a Company’s maximum discretionary power to issue further shares up to 15% of the issued capital of the Company without requiring shareholder approval.

Information for Shareholders

Resolution 6 has been included so that shareholders may approve and ratify pursuant to Listing Rule 7.4 the issue of a total of 1,500,000 shares in the capital of the Company. The shares were issued pursuant to Section 708 of the Corporations Act.

The Shares were issued at 20 cents each. The Shares are fully paid ordinary shares in the Company and rank equally with the existing ordinary fully paid shares in the Company. The funds were raised for working capital purposes.

No shares were issued to directors or their associates.

The Company wishes to ratify the issue in order to allow the Company to have the right to place a further 15% of its issued capital at any time in the next twelve months.

The Company will disregard any votes cast on this Resolution 6 by any person who participated in the issue or any associate of that person. However the Company will not disregard a vote if:

- it is cast by a person as 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.

SPECIAL RESOLUTION 6: Disposal of less than a Marketable Parcel of Shares

To avoid excessive administration costs, the Constitution contains provisions enabling the Company to procure the disposal of shares where the member holds less than a Marketable Parcel of shares within the meaning of the Listing Rules (being a parcel of shares with a market value of less than \$500). To invoke the procedure, pursuant to the requirements of the Constitution, the directors must first give notice to the relevant member holding less than a Marketable Parcel of shares, who may then elect not to have his or her shares sold by notifying the directors.

As well as keeping administrative costs to a minimum, the disposal of less than Marketable Parcels, at no cost to the member, enables holders of small numbers of shares to sell their holding without incurring minimum brokerage.

Clause 2.15 requires shareholder approval to give the Company the right, but not the obligation, to dispose of less than Marketable Parcels.

Shareholder approval by special resolution is sought pursuant to clause 2.15 of the Constitution to invoke clauses 2.13 and 2.14 of the Constitution to enable the Company the right to dispose of less than marketable parcels of Shares.

The provisions related to the disposal of unmarketable parcels are set out below.

Clause 2.13 – Minimum Shareholding

(a) The provisions of this Constitution and Clause 2.14 and 2.15 have effect notwithstanding any other provision of this Constitution, except Clause 32.

(b) In Clause 2.13, 2.14 and 2.15:

“Authorised Price” means the price per share of the Listed Securities equal to the simple average of the last sale prices of the Listed Securities quoted on ASX for each of the ten trading days immediately preceding the date of any offer received by the Company pursuant to paragraph (e) of this Clause;

“Date of Adoption” means the date upon which this Clause and Clauses 2.14 and 2.15 are inserted in this Constitution by special resolution of the members of the Company;

“Date of Effect” means the date immediately following the date of expiry contained in the second notice by the Company to Minority Members in accordance with Clause 2.14(c);

“Minimum Shareholding” means a number of shares equal to a “marketable parcel” of Listed Securities within the meaning of the Listing Rules or such other entity as may succeed the functions of that company;

“Minority Member” means a member holding less than the Minimum Shareholding on or at any time after the Date of Adoption;

“Purchaser” means the person or persons (including a member or members) whose offer or offers to purchase Listed Securities is or are accepted by the Company.

(c) Subject to Clauses 2.14 and 2.15, on and from the Date of Effect, a member shall not hold less than the Minimum Shareholding, unless otherwise determined by the Directors.

(d) Subject to Clauses 2.14 and 2.15, on and from the Date of Effect, each Minority Member shall be deemed to have irrevocably appointed the Company as his agent:

(i) to sell all the Listed Securities held by him at a price not less than the Authorised Price and without any cost being incurred by the Minority Member;

- (ii) to deal with the proceeds of the sale of those Listed Securities in accordance with this Clause 2.13; and
 - (iii) where the Shares are CHESS Approved Securities held in uncertificated form, to initiate a Holding Adjustment (as defined in the SCH Business Rules) to move the shares from the CHESS Holdings (as defined in the SCH Business Rules) of the Minority Member to an Issuer Sponsored or Certificated Holdings (as defined in the SCH Business Rules) for the sale of the Shares.
- (e) Where the Company receives an offer for the purchase of all the Listed Securities of a Minority Member to whom this Clause applies at the date of the offer at a price not less than the Authorised Price, then the Company may accept the offer on behalf of such a Minority Member.
- (f) The Company shall, by instrument in writing, appoint a person or persons to act as attorney or attorneys of each Minority Member to whom this Clause applies, to execute an instrument or instruments of transfer of their Listed Securities to the Purchaser.
- (g) Where:
- (i) all the Listed Securities of each Minority Member to whom this Clause applies at the time are sold to one Purchaser: or
 - (ii) all the Listed Securities of two or more Minority Members to whom this Clause applies at any time are sold to one Purchaser,
- the transfer may be effected by one instrument of transfer.
- (h) The Company shall receive the proceeds of the sale of the Listed Securities of each Minority Member to whom this Clause applies at any time and shall:
- (i) immediately cause the name of the Purchaser to be entered in the Register of Shareholders as the holder of the Listed Securities sold; and
 - (ii) within fourteen days of receipt of the relevant share certificate, cause the proceeds to be sent to the Minority Member by cheque mailed to his address in the Register of Shareholders (or in the case of joint holders, to the address of the holder whose name is shown first in the Register of Shareholders), this cheque to be made payable to the Minority Member (or, in the case of joint holdings, to them jointly). In the case where a Minority Member's whereabouts are unknown or where a Minority Member fails to return the share certificate or certificates (where required) relating to the Listed Securities sold, the proceeds of sale shall be applied in accordance with the applicable laws dealing with unclaimed moneys.
- (i) The receipt by the Company of the proceeds of sale of Listed Securities of a Minority Member shall be good discharge to the Purchaser of all liability in respect of the purchase of the Listed Securities.
- (j) Upon entry of the name of the Purchaser in the Register of Shareholders as the holder of the Listed Securities of a Minority Member to whom this Constitution applies:
- (i) the Purchaser shall not be bound to see to the regularity of the actions and proceedings of the Company pursuant to this Constitution or to the application of the proceeds of sale; and
 - (ii) the validity of the sale shall not be impeached by any person.
- (k) The remedy of any Minority Member to whom this Clause applies in respect of the sale of his or her Listed Securities is expressly limited to a right of action in damages against the Company to the exclusion of any other right, remedy or relief against any other person.
- (l) The Company shall bear all the costs of the sale of the Shares.

Section 2.14 – Exemption from Clause 2.13

- (a) At any time on and from the Date of Adoption, the Company shall give written notice to a Minority Member and, where the Shares are CHES Approved Securities, to the Controlling Participant (as defined in the SCH Business Rules) for the holding of the Minority Member, advising of the Company's intention to sell his or her shareholding pursuant to Clause 2.13. Unless the Minority Member, within 6 weeks of receipt of notice from the Company in accordance with this Clause 2.14(a), gives written notice to the Company that he or she desires his or her shareholding to be exempted from Clause 2.13, then the provisions of Clause 2.14 shall apply to this Minority Member. Where Shares are CHES Approved Securities, a written notice by the Company in terms of this Clause shall comply with the SCH Business Rules.
- (b) Where a Minority Member has given written notice to the Company that he or she desires his or her shareholding to be exempted from Clause 2.13 he or she may, at any time, revoke or withdraw that notice. In that event the provisions of Clause 2.13 shall apply to the Minority Member.
- (c) Where a Minority Member has not given written notice to the Company within 6 weeks of receipt of notice from the Company in accordance with Clause 2.14(a) that he or she desires his or her shareholding to be exempted from Clause 2.13, then the Company shall give that Minority Member and, where the Shares are CHES Approved Securities, to the Controlling Participant (as defined in the SCH Business Rules) for the holding of the Minority Member, a second written notice complying with the SCH Business Rules advising that the Company intends to sell his or her shareholding immediately upon expiration of 5 Business Days from the date of that notice unless the Minority Member gives written notice to the Company within that time that he or she desires his or her shareholding to be exempted from Clause 2.13, in which case Clause 2.13 shall not apply to the Minority Member.
- (d) The Company shall not commence to sell share parcels comprising less than a Minimum Shareholding following the announcement of a takeover offer or takeover announcement for the Company.

Section 2.15 – Duration of Clauses 2.13 and 2.14

Clauses 2.13 and 2.14 shall cease to have any effect after a period of twelve calendar months following the Date of Adoption or re-adoption and may be invoked only once in any twelve month period after their adoption or re-adoption.

ANNEXURE A

Terms and Conditions of Class A, Class B and Class C Options to be issued to Mr Grivas

Each Class A, Class B and Class C Option to be issued to Mr Grivas pursuant to Resolutions 5 (“**Director Options**”) will entitle the holder of the Option to subscribe for one Share in the Company on the terms and conditions set out below:

1. No consideration is payable in respect of the grant of the Director Options.
2. The exercise price payable upon exercise of each of the Director Options is:
 - a) 50 cents per Share in respect of the Class A Options;
 - b) 65 cents per Share in respect of the Class B Options; and
 - c) 75 cents per Share in respect of the Class C Options.
3. The Options will be exercisable by giving written notice of exercise to the Company:
 - a) on or before 30 April 2012 in respect of a Class A Option;
 - b) on or before 30 April 2012 in respect of a Class B Option; and
 - c) on or before 30 April 2012 in respect of a Class C Option.
4. Each Director Option will entitle the holder to subscribe for one (1) Share which will be issued by the Company within 10 business days of receiving written notice of exercise, together with monies representing the price of the Options.
5. A Share issued upon exercise of Director Option will rank pari passu in all respects with all other Shares.
6. If the Shares are quoted on ASX, the Company will apply to ASX for official quotation of all Shares issued upon exercise of Director Options.
7. The Company will not apply to have the Director Options quoted on ASX.
8. If there is a bonus issue to holders of Shares, on the exercise of any Director Options, the number of Shares over which a Director Options may be exercised will not be increased to the number of bonus Shares that would have been issued if the Director Options had been exercised prior to the date for the bonus issue.
9. Optionholders will only be entitled to participate in new issues or rights to subscribe for additional Shares, or any other securities to be issued by the Company, on the prior exercise of the Director Options.
10. In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company, the Director Options and/or their exercise price will be reconstructed in the manner required by the Listing Rules.

11. A certificate will be issued for Director Options. If there is more than one (1) Director Option on a certificate and prior to the expiry date those Director Options are exercised in part, the Company will issue another certificate for the balance of the Director Options held and not yet exercised.
12. A Directors' Option is transferable by an Optionholder if, and only if, the transfer is to the director for whose benefit that Directors' Option was originally granted or the spouse of that director, a body corporate in which the Director holds and beneficially owns at least 50% of the issued voting share capital, the trustee of a trust in which the Director is a beneficiary or object or the trustee of a superannuation fund of which the Director is a member. Otherwise, subject to the Listing Rules, Director Options are not transferable except with the prior written approval of the Board.

ANNEXURE B

Valuation of Class A, Class B and Class C Options to be issued to Mr Grivas

The Company commissioned an independent valuation of the Class A, Class B and Class C Options to be issued to Mr Grivas pursuant to Resolutions 5 (“**Director Options**”).

Using the theoretical Black – Scholes option model and based on the assumptions as set out in the table below, the Directors’ Options were ascribed a value range, as follows:

	Class A Options		Class B Options		Class C Options	
Indicative value per option (cents)	16.09€	19.72€	14.10€	18.25€	13.01€	17.42€
<i>Assumptions:</i>						
Valuation date	5 Apr 2007	5 Apr 2007	5 Apr 2007	5 Apr 2007	5 Apr 2007	5 Apr 2007
Share price	43¢	43¢	43¢	43¢	43¢	43¢
Exercise price	50¢	50¢	65¢	65¢	75¢	75¢
Expiry date	30 Apr 2012	30 Apr 2012	30 Apr 2012	30 Apr 2012	30 Apr 2012	30 Apr 2012
Volatility	60%	80%	60%	80%	60%	80%
Risk free interest rate	6.13%	6.13%	6.13%	6.13%	6.13%	6.13%
Lack of marketability discount	30%	30%	30%	30%	30%	30%

GLOSSARY

Act means the Corporations Act 2001 (Cth).

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

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited.

ASX Listing Rules or **Listing Rules** means the Listing Rules of ASX.

Board means the board of Directors of the Company.

Company or **XState** means XState Resources Limited ABN 96 009 217 154.

Constitution means the Company's constitution.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the current directors of the Company.

Existing Shareholders means all Shareholders on the register of members of the Company immediately prior at the Snapshot date.

Explanatory Memorandum means this Explanatory Memorandum.

Notice or **Notice of Meeting** means the notice of meeting accompanying this Explanatory Memorandum.

Optionholder means a holder of an Option.

Option means the Class A, Class B and Class C Options proposed to be granted to Mr Grivas pursuant to Resolutions 5, the terms and conditions of which are set out in Annexure A.

Resolutions means the resolutions contained in the Notice which Shareholders will vote upon.

Security Holder means a holder of a Share or an Option.

Shareholder means a holder of a Share.

Shares means fully paid ordinary Shares in the capital of the Company.

WST means Western Standard Time.

PROXY FORM

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

ANNUAL GENERAL MEETING

I/We

Address

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

Appoint

Name of proxy

or failing the person so named or, if no person is named, the Chairman of the Meeting or the Chairman's nominee, to vote in accordance with the following directions or, if no directions have been given, as the proxy sees fit at the Annual General Meeting to be held at Level 2, 45 Stirling Highway, Nedlands, Western Australia; on Wednesday, 30 May 2007 at 11.00am (WST) and at any adjournment thereof. If no directions are given, the Chairman will vote in favour of all of the resolutions.

Voting on Business of the Annual General Meeting

		FOR	AGAINST	ABSTAIN
Resolution 1	Directors' Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Re-election of Mr R Kestel as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Election of Mr R Grivas as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Issue of Options to Mr R Grivas	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Ratification of Share Issue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Disposal of Less than a Marketable Parcel of Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

OR

In relation to the Resolutions, if the Chairman is to be your proxy and you do **not** wish to direct your proxy how to vote on these Resolutions, please place a mark in this box

By marking this box, you acknowledge that if you have appointed the Chairman as your proxy the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of the interest. The Chairman intends to vote in favour of all of the resolutions.

YOU MUST EITHER MARK THE BOXES DIRECTING YOUR PROXY HOW TO VOTE OR MARK THE BOX INDICATING THAT YOU DO NOT WISH TO DIRECT YOUR PROXY HOW TO VOTE, OTHERWISE THIS APPOINTMENT OF PROXY FORM WILL BE DISREGARDED.

If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item on a show of hands or on a poll and that your shares are not to 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 _____ %

Signed this _____ day of _____ 2007

By:

Individuals and joint holders

Signature
Signature
Signature

Companies (affix common seal if appropriate)

Director
Director/Company Secretary
Sole Director and Sole Company Secretary

Instructions for Completing 'Appointment of Proxy' Form

1. A member entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies.
2. If a member appoints two proxies, each proxy must be appointed to represent a specified portion or number of the member's voting rights and neither proxy may vote on a show of hands.
3. If a member appoints two proxies, and the appointment does not specify the proportion or number of the member's votes each proxy may exercise, each proxy may exercise half of the votes.
4. A proxy need not be a member of the Company.
5. If a corporate representative is to attend the meeting on behalf of a corporation, a formal notice of appointment must be brought to the meeting.
6. The Proxy Form must be signed by the shareholder or the shareholder's attorney. If the shareholder is a corporation, the Proxy Form should be signed under its common seal, or by two directors (or a director and a company secretary), or if a corporation with a sole director and sole secretary by that director, with the office held printed under each signature. Alternatively, a corporation can sign by its attorney or duty authorised officer.
7. The Proxy Form and any power of attorney or authority under which it is signed must be received at the registered office of the Company not less than 48 hours prior to the appointed time of Meeting. Proxy Forms can be lodged:
 - . **in person** at: XState Resources Limited
Level 2, 45 Stirling Highway
NEDLANDS WA 6009
 - . **by post** to: XState Resources Limited
PO Box 985
NEDLANDS WA 6909
 - . **by facsimile** on: (61 8) 9389 8327
8. In accordance with Regulation 7.11.37 of the Corporations Regulations 2001, the Directors have set a snapshot date to determine the identity of those entitled to attend and vote at the Meeting. The snapshot date is 11.00am (WST) on Monday, 28 May 2007.

Please advise of any change of address by completion of the section below:

My new address is _____
