XState Resources Limited ABN 96 009 217 154

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Nedlands WA 6009

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Website
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31 March 2008

ASX Limited

Dear Sir / Madam

Please find attached audited accounts for XState Resources Limited for the financial year ended 31 December 2007.

Yours faithfully

D McArthur

DAVID McARTHUR
Director

XSTATE RESOURCES LIMITED

ABN 96 009 217 154

ANNUAL REPORT

2007

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

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XSTATE RESOURCES LIMITED
ABN 96 009 217 154

COMPANY DIRECTORY

DIRECTORS:	Ross Kestel David McArthur Rhod Grivas
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:	ANZ Banking Group Limited 31 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

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

CHAIRMAN'S LETTER

Dear Shareholder

The financial year ended 31 December 2007 was a somewhat frustrating period for your Company.

Following a lengthy period of assessing possible opportunities, the directors of XState were pleased to have completed a successful capital raising and enter into a joint venture agreement over a section of the highly prospective "Arizona Strip" in the USA. This was all achieved at a time of significant increases in the price of Uranium, and a growing global awareness of world demand for Uranium.

Unfortunately market enthusiasm for Uranium exploration companies was not sustained. XState believes that through its joint venture it has an excellent exploration portfolio, supported by a healthy working capital balance, and an extremely competent technical team.

Given the significant previous discoveries of Uranium ore bodies along the Arizona Strip, combined with the fact fundamental demand and pricing for Uranium are increasing, your board still feel that ongoing exploration activity in Arizona offers exciting opportunities.

Your Company retains a substantial fund balance in Australia that is not committed to the joint venture in Arizona, and your directors are aggressively seeking possible investment opportunities at an ideal time for companies with a robust cash balance.

On behalf of the board of directors I would like to thank all shareholders for their continued support.

Yours faithfully

ROSS KESTEL
Chairman

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

OPERATIONS REPORT

XState Resources Limited ("XState") has a joint venture with Liberty Star Uranium ("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 earned 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, Sate 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 primary targets were initially allocated to the Joint Venture and a further four primary targets have now been allocated to the Joint Venture. These are the Elle, Hermina, Hada, Loredo, Neola, Hafsa and Helvia targets.

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. 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. 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.

The principal exploration focus during the year has been to attempt a method of identifying and prioritising possible targets within the joint venture area.

A drilling program conducted over the Elle and Hada targets in the first quarter of calendar 2007, confirmed that the identification of targets by way of traditional geophysical techniques was difficult, given a sulphidic source approximately 300 feet in diametre and 900 – 1200 feet in depth, cannot be reliably detected with current electrical geophysical equipment.

In the ensuing 9 months, Liberty Star conducted a substantial geochemical program over their ground holdings, including the joint venture area. This is a technique that Liberty Star has significant experience with. This program included the testing of previous pipes with known mineralisation. A total of 13,000 + soil samples were assayed for 63 elements (total Liberty Star ground).

Liberty Star also located and re-entered 7 of 14 existing drill holes drilled by previous explorers in the 1970's and 1980's in search of uranium mineralisation. Holes have been re-opened to variable depths of between 50ft and 1800ft and in some cases spot core has been extracted from the edges of existing holes giving some indication of the lithogies encountered. The re-opening of the drill holes is twofold, one to give indications of the lithogical environment and to potentially locate breccia materially and secondly to clean the hole for down-hole geophysics testing for conductive material such as the pyrite caps that are associated with mineralised breccia pipes.

The re-entering of Gala01, located close to the Helvia airborne EM anomaly and within the joint venture AMI, has intersected approximately 5ft of brecciated core and several intervals of pyritic material. The hole was lost as 685ft however highlights alteration, brecciation and pyrite that is indicative of a pipe feature.

Future Exploration

As a result of the above exploration work completed by Liberty Star, three targets have been identified by the joint venture as the most prospective targets for further exploration.

The targets are Neola, Helvia (2 possible targets) and Hafsa. All three targets have now been included in the joint venture area.

Neola forms part of the Rock South West complex, and Helvia and Hafsa form part of the Galaxy complex.

The addition of the above key exploration targets give the Joint Venture 7 areas of interest (comprising 8 possible targets).

The first stage of exploration will comprise preliminary drilling programs as Neola, Helvia and Hafsa, as part of a multi stage drilling program, with each level determined by previous results.

The first program will involve drilling 3 holes into each target at the centre of the anomaly, at a 45 degree angle, to a depth of approximately 300 feet.

Liberty Star have acquired a drill rig suitable for all exploration drilling by the Joint Venture, and have agreed to charge the Joint Venture cost plus 10% for all work completed. This will result in a substantial saving to the Joint Venture.

Corporate

Given availability of significant cash reserves within the Company, the directors continue to assess possible investment opportunities for the Company.

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

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.

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*.

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

DIRECTORS' REPORT

The Directors present their report together with the financial report of XState Resources Limited ("the Company"), for the year ended 31 December 2007 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 53, is both a Chartered Accountant and Certified Practicing 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 50, 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 28 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 24 years.

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.

***Rhoderick Grivas**, Non-executive director*

Mr Grivas, aged 41, is a geologist with over 20 years' experience in all technical aspects of exploration from grassroots through to resource estimation and feasibility. He has held a number of director and management positions with junior resource companies.

Appointed 29 March 2007

***Douglas Wood,** Non-executive director*

Mr Wood was appointed 20 September 2006 and resigned 10 April 2007.

COMPANY SECRETARY

David McArthur is a chartered accountant and was appointed on 29 October 1999. Mr McArthur has 28 years experience in the corporate management of public companies.

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
	Jabiru Metals Limited	August 2003 – current
	Equigold NL	April 2003 – current
	Jatoil Limited	September 2007 - current
	Conquest Mining Limited	February 1999 – May 2006
	Orchid Capital Limited	April 2002 – July 2005
	Lowan Australia Limited	June 2002 – April 2005
	DVM International Limited	April 2005 – November 2007
	Northern Mining Limited	April 2005 – June 2007
D McArthur	AquaCarotene Limited	January 2007 – May 2007
	Ellendale Resources NL	1999 – May 2007
	Dioro Exploration NL	1991 – current
R Grivas	Dioro Exploration NL	2002 - current

PRINCIPAL ACTIVITY

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

RESULTS AND REVIEW OF OPERATIONS

The net loss of the Company, after income tax, for the year ended 31 December 2007 was $402,305 (2006 loss: $243,349).

During the financial year the Company continued its exploration activities as detailed in its quarterly reports released to the Australian Securities Exchange.

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 2007.

SUMMARY OF MATERIAL TRANSACTIONS

On March 2007 Mr Rhod Grivas was appointed a director of the Company.

On 10 April 2007 Mr Douglas Wood resigned as a director of the Company.

On 25 June 2007 the Company entered into a heads of agreement to acquire Zeus Resources Pty Ltd. The agreement was terminated on 2 July 2007.

On 27 September 2007 Liberty Star Uranium and Metals Corp ("Liberty Star"), the Elle Joint Venture partner, transferred a 50% interest in four standard federal lode mining claims to the joint venture. The claims comprise an area of about 83 acres, which cover the Loreto breccia pipe target to the Company.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the directors, there were no matters that significantly affected the state of affairs of the Company during the financial year in review, other than those matters referred to in the summary of material transactions.

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.

The Company will also continue to assess other investment opportunities.

ENVIRONMENTAL REGULATIONS

The Company has a policy of at least complying, but in most cases exceeding its environmental performance obligations. No environment breaches have been notified by any government agency during the year ended 31 December 2007. The board believes that the Company has adequate systems in place for the management of its environment regulations.

DIRECTORS' INTERESTS

Relevant interests of the directors in the shares and options of the Company, as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, as at the date of this report, are:

	Ordinary shares	**Options over ordinary shares**
Ross Kestel	-	-
David McArthur	1,000,000	-
Rhod Grivas	130,000	1,000,000

DIRECTORS' MEETINGS

During the year there were 5 formal meetings of the Directors, resulting in 3 circulating resolutions, pursuant to the Company's Constitution.

The attendance of Directors was as follows:

	Attended	**Eligible to Attend**
R Kestel	5	5
D McArthur	5	5
R Grivas	4	4
D Wood	2	2

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

During the year 1,650,000 unlisted options were exercised. The remaining 5,075,000 unlisted options expired on 30 June 2007, such options were exercisable at 20 cents by 30 June 2007.

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.

Directors and executive officers' remuneration - audited
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:

		Short-term		*Post-employment*	*Share-based payments*	
	Year	**Fees & salary $**	**Non-monetary benefits $**	**Super-annuation $**	**Options & rights $**	**Total $**
R Kestel	**2007**	45,837	-	-	-	45,837
Non-executive chairman	**2006**	15,834	-	-	-	15,834
D McArthur	**2007**	75,000	-	6,756	-	81,756
Executive director & company secretary	**2006**	25,549	-	2,171	-	27,720
R Grivas[1]	**2007**	30,006	-	2,700	91,918	124,624
Non-executive director	**2006**	-	-	-	-	-
D Wood[2]	**2007**	11,113	-	1,000	-	12,113
Non-executive director	**2006**	12,200	-	1,029	-	13,229
Totals	**2007**	**161,956**	**-**	**10,456**	**91,918**	**264,330**
	2006	**53,583**	**-**	**3,200**	**-**	**56,783**

1. Appointed during the 2007 financial year.
2. Resigned during the 2007 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.

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	
	2007	**2006**
	$	**$**
Audit and review of financial reports	40,634	18,320
Other services	10,113	12,000
	50,747	30,320

AUDITOR'S INDEPENDENCE STATEMENT

The auditor's independence declaration is included immediately after this and forms part of the Directors' Report for the year ended 31 December 2007.

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

For and on behalf of the Board.

D M McARTHUR
Director

31 March 2008
Perth, Western Australia

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 2007 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
Partner

Perth
31 March 2008

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Company 2007 $	Company 2006 $
Other income	2	-	3,340
Administration fees		(39,814)	(17,024)
Employee benefits expense	3	(291,219)	(56,783)
Professional fees	3	(142,243)	(144,188)
Share registry and statutory fees		(69,031)	(35,420)
Other expenses		(11,874)	-
Results from operating activities		(554,181)	(250,075)
Financial income		161,859	6,726
Financial expenses		-	-
Net financing income		161,859	6,726
Share of loss of equity accounted investees		(9,983)	-
Loss before income tax		(402,305)	(243,349)
Income tax expense	5	-	-
Net loss for the year		(402,305)	(243,349)
Net loss attributable to equity holders		(402,305)	(243,349)
Basic and diluted loss per share (cents per share)	6	(0.73)	(1.40)

The income statement is to be read in conjunction with the notes to the financial statements.

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

BALANCE SHEET
AS AT 31 DECEMBER 2007

	Notes	Company 2007 $	Company 2006 $
CURRENT ASSETS			
Cash and cash equivalents	8	2,337,977	2,351,432
Trade and other receivables	9	18,043	39,323
Other	10	16,630	35,941
TOTAL CURRENT ASSETS		2,372,650	2,426,696
NON-CURRENT ASSETS			
Investments in equity accounted investees	11	3,857,807	3,867,789
TOTAL NON-CURRENT ASSETS		3,857,807	3,867,789
TOTAL ASSETS		6,230,457	6,294,485
CURRENT LIABILITIES			
Trade and other payables	13	31,914	101,435
Provisions	14	10,558	2,211
Loans	15	-	22,467
TOTAL CURRENT LIABILITIES		42,472	126,113
TOTAL LIABILITIES		42,472	126,113
NET ASSETS		6,187,985	6,168,372
EQUITY			
Issued capital	16	31,884,265	31,554,265
Reserves	17	91,918	-
Accumulated losses		(25,788,198)	(25,385,893)
TOTAL EQUITY		6,187,985	6,168,372

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

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

	Issued capital $	Accumulated losses $	Reserves $	TOTAL $
COMPANY				
At 1 January 2007	31,554,265	(25,385,893)	-	6,168,372
Loss for the period	-	(402,305)	-	(402,305)
Exercise of unlisted options	330,000	-	-	330,000
Cost of share-based payments	-	-	91,918	91,918
At 31 December 2007	31,884,265	(25,788,198)	91,918	6,187,985
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	31,554,265	(25,385,893)	-	6,168,372

The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Company 2007 $	Company 2006 $
Cash flows from operating activities			
Payments to suppliers and employees		(470,769)	(229,328)
Interest received		149,781	6,726
Net cash flows used in operating activities	20(b)	(320,988)	(222,602)
Cash flows from investing activities			
Payments for investments		-	(3,867,790)
Repayment of loans – other entities		-	3,047
Net cash flows used in investing activities		-	(3,864,743)
Cash flows from financing activities			
Proceeds from issue of shares		330,000	6,570,000
Capital raising costs		-	(194,832)
Repayment of loan from related entities		(22,467)	-
Net cash flows provided by financing activities		307,533	6,375,168
Net (decrease)/increase in cash and cash equivalents		(13,455)	2,287,823
Cash and cash equivalents at the beginning of the financial year		2,351,432	63,609
Cash and cash equivalents at the end of the financial year	20(a)	2,337,977	2,351,432

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

Reporting entity

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

The financial report was authorised for issue by the directors on 28 March 2008.

Basis of preparation

(i) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The financial report also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

(ii) Basis of measurement

The financial report is prepared on the historical cost basis except for share-based payment transactions. These are stated at their fair value.

(iii) Use of estimates and judgements

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

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(iv) Functional and presentation currency

The financial report is presented in Australian dollars, which is the Company's functional currency.

(v) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 31 December 2007, but have not been applied in preparing this financial report:

AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting.* AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company as the standard is only concerned with disclosures.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

(v) New standards and interpretations not yet adopted (continued)

AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations,* AASB 6 Exploration *for and Evaluation of Mineral Resources,* AASB 102 *Inventories,* AASB 107 *Cash Flow Statements,* AASB 119 *Employee Benefits,* AASB 127 *Consolidated and Separate Financial Statements,* AASB 134 *Interim Financial Reporting,* AASB 136 *Impairment Assets,* AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts.* AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments.* This standard is only expected to impact disclosures contained within the financial report.

Interpretation 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the Company's 2008 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Company first applied the measurement criteria of AASB 136 and AASB 139 respectively. Interpretation 10 is not expected to have any impact on the financial report. The potential effect of the Interpretation on the Company's financial report has not yet been determined

Interpretation 11 *AASB 2 Share-based Payment – Group and Treasury Share Transactions* addresses the classification of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another group entity are transferred, in the financial statements of the entity receiving the services. Interpretation 11 will become mandatory for the Company's 2008 financial report. Interpretation 11 is not expected to have any impact on the financial report. The potential effect of the Interpretation on the Company's financial report has not yet been determined.

AASB 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation II amends AASB 2 *Share-based Payments* to insert the transitional provisions of IFRS 2, previously contained in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards.* AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the financial report. The potential impact on the Company has not yet been determined.

Interpretation 12 *Service Concession Arrangements* addresses the accounting for service concession operators, but not grantors, for public to private service concession arrangements. Interpretation 12 will apply for the Company's 2009 financial report. The potential effect of the interpretation on the financial report has not yet been determined. At this time an entity must adopt the revised Interpretation 4 *Determining when an arrangement contains a lease* and Interpretation 129 *Service Concession Arrangements: Disclosures.*

AASB 2007-2 Amendments to Australian Accounting Standards arising from AASB Interpretation 12 makes amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, AASB 121 *The Effects of Changes in Foreign Exchange Rates*, AASB 127 *Consolidated and Separate Financial Statement*, AASB 131 *Interest in Joint Ventures*, and AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 2007- 2 is applicable for annual reporting periods beginning on or after 1 January 2008 and must be applied at the same time as Interpretation 12 Service Concession Arrangements.

AASB 2007-4 Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments which reinstated the option to use proportionate consolidation for accounting for interests in jointly controlled entities in AASB 131 *Interests in Joint Ventures*. Subsequently, a number of references to proportionate consolidation that were not added via AASB 2007-4 to other Standards were identified. The Erratum is applicable for annual reporting periods beginning on or after 1 July 2007. The potential impact of the Erratum on the Company's financial report has not yet been determined.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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) Taxation

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(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 recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services and are stated at amortised 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.

(h) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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

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.

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.

(k) Jointly controlled entities (equity accounted investees)

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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment (continued)

Financial assets (continued)
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.

Defined contribution plans
Contributions to defined contribution superannuation plans are expensed when incurred.

(n) Share capital

Ordinary shares
Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

(o) Earnings per share

The Company presents basic diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

NOTES TO THE FINANCIAL STATEMENTS

		Notes	Company 2007 $	2006 $
2.	**OTHER INCOME**			
	Other		-	3,340
			-	3,340
3.	**EXPENSES**			
	Employee benefits expense			
	Directors' fees	(i)	86,956	28,034
	Management fees	(i)	74,955	25,549
	Share based payments		91,918	-
	Superannuation		10,456	3,200
	Insurance		26,934	-
			291,219	56,783
	(i) Includes amounts accrued for annual leave.			
	Professional fees			
	Audit fees		40,634	18,320
	Legal fees		18,792	20,351
	Administration fees		50,000	52,285
	Consultancy fees		32,817	53,232
			142,243	144,188
4.	**AUDITOR'S REMUNERATION**			
	Amounts received, or due and receivable, by the auditors for:			
	Audit and review of the financial statements		40,634	18,320
	Other services		10,113	12,000
			50,747	30,320
5.	**INCOME TAX EXPENSE**			
	Recognised in the income statement			
	Current income tax benefit		(120,026)	(73,005)
	Deferred tax expense		120,026	73,005
	Income tax expense reported in the income statement		-	-

	Company 2007 $	Company 2006 $
5. INCOME TAX EXPENSE (continued)		
Reconciliation between tax expense and pre-tax net loss		
Accounting loss before income tax	(402,305)	(243,349)
Income tax using the domestic corporation tax rate of 30% (2006: 30%)	(120,691)	(73,005)
Increase/(decrease) in income tax expense due to:		
Non-deductible expenses	9,823	26,269
Deductible expenses	(9,158)	(13,490)
Tax losses not bought to account	120,026	60,226
Income tax expense reported in the income statement	-	-
Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	626,326	226,239
Potential tax benefit at 30% (2006:30%)	187,898	67,872

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits of $187,898 (2006: $67,872) attributable to tax losses have not been brought to account because the directors do not believe it is appropriate to regard realisation of the future income tax benefits as probable.

The benefit of these tax losses will only be obtained if:

i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

ii) the conditions for deductibility imposed by tax legislation continue to be complied with, and

iii) no changes in tax legislation adversely affect the Company in realising the benefit.

6. LOSS PER SHARE

	2007	2006
Loss for the year	(402,305)	(243,349)
	Number	**Number**
Weighted average number of ordinary shares (basic)		
Issued ordinary shares at 1 January	53,429,593	8,904,593
Effect of shares issued during the year	1,650,000	8,468,973
Weighted average number of ordinary shares (basic) at 31 December	55,079,593	17,373,566
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares at 31 December	55,079,593	17,373,566
Effect of share options on issue	-	-
Weighted average number of ordinary shares (diluted) at 31 December	55,079,593	17,373,566

There were a further 2,810,342 (2006: 4,416,096) potential ordinary shares (options) not considered dilutive as their conversion does not show an inferior view of the earnings performance of the Company. Accordingly, diluted loss per share is the same as basic loss per share.

NOTES TO THE FINANCIAL STATEMENTS

7. SEGMENT INFORMATION

The Company operates predominantly in the uranium mining and exploration industry in the United States of America ("USA") and Australia.

At 31 December 2007, there was $3,408 of interest income and $23,374 of administration expenses incurred in the USA. USA assets included $3,857,807 of investments in equity accounted assets and nil liabilities. All remaining income and expenses were incurred within Australia.

	Company 2007 $	Company 2006 $
8. CASH AND CASH EQUIVALENTS		
Bank balances	2,337,977	2,351,432
9. TRADE AND OTHER RECEIVABLES		
Accrued interest income	12,078	-
GST refundable	5,965	39,323
	18,043	39,323
10. OTHER ASSETS		
Prepayments	16,630	35,941
11. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES		
XState Arizona Inc Joint Venture	3,857,807	3,867,789

Joint Venture Name	Principal Activities	Interest Held 2007	Interest Held 2006
XState Arizona Inc Joint Venture	Uranium exploration	50%	50%

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

	2007	2006
Cash and cash equivalents	2,463,776	2,288,972
Capitalised tenement expenditure	803,898	-
Trade and other payables	2,566	-
Administration expenses	(19,965)	-

Pursuant to the agreement with the joint venture partner, Liberty Star Gold Inc (Liberty Star), XState contributed US$2.9 million to the joint venture to earn the 50% interest referred to above.

In turn, Liberty Star allocated a land area covering approximately 22 square miles (57 square kilometres) to the joint venture. Within this area, there are approximately 20 prospective uranium pipe targets, of which three have been initially allocated to the joint venture and the balance are subject to a first right of refusal in XState's favour. However, this land is not reflected in the above summary of financial information for the joint venture.

NOTES TO THE FINANCIAL STATEMENTS

	Company 2007 $	Company 2006 $
12. DEFERRED TAX ASSETS		
Unrecognised deferred tax assets are attributable to the following:		
Assets		
Trade and other payables	4,500	27,430
Provisions	3,167	663
Capital raising costs	18,475	24,634
Tax losses	187,898	-
	214,040	52,727

The Company does not recognise deferred tax assets as it is not probable that sufficient taxable amounts will be available in future periods in which to be offset.

	2007 $	2006 $
13. TRADE AND OTHER PAYABLES		
Trade creditors	16,914	33,388
Accruals	15,000	65,000
Other loans	-	3,047
	31,914	101,435
14. PROVISIONS		
Employee entitlements	10,558	2,211
	Number	**Number**
Number of employees at end of financial year	1	1
	$	**$**
15. LOANS		
Loans – unsecured	-	22,467

This was an unsecured and interest-free loan. The loan was repaid during the year.

	2007 $	2006 $
16. ISSUED CAPITAL		
Issued and paid-up capital		
55,079,593 fully paid ordinary shares (2006: 53,429,593)	31,884,265	31,554,265

16. ISSUED CAPITAL (continued)

	Company			
	2007 Number	2006 Number	2007 $	2006 $
Movements during the year				
Balance at beginning of year	53,429,593	8,904,593	31,554,265	24,629,097
Ordinary shares issued at 4 cents	-	6,000,000	-	240,000
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	1,650,000	150,000	330,000	30,000
Capital raising costs	-	-	-	(194,832)
Balance at end of year	55,079,593	53,429,593	31,884,265	31,554,265

On 30 June 2007 5,075,000 unlisted options expired unexercised.

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. RESERVES

	2007 $	2006 $
Employee equity-settled benefits reserve	91,918	-
Movements in employee equity-settled benefits reserve:		
Balance at beginning of year	-	-
Cost of share-based payment	91,918	-
Balance at end of year	91,918	-

The employee equity-settled benefits reserve arises on the grant of equity instruments to employees and key management personnel. Refer to Note 18 for further details.

18. SHARE-BASED PAYMENT PLANS

Options – 30 May 2007

On 30 May 2007 1,000,000 options were granted to Mr Grivas. These options were issued as an incentive to secure the ongoing commitment of Mr Grivas to the continued growth of the Company. The options were issued for nil consideration.

The options have been granted on the following terms and conditions:

Tranche	Number	Exercise price	Vesting date	Expiry date
1	300,000	50 cents	30 May 2007	30 April 2012
2	350,000	65 cents	29 May 2008	30 April 2012
3	350,000	75 cents	29 May 2009	30 April 2012

18. SHARE-BASED PAYMENT PLANS (continued)

The fair value of the equity-settled options was estimated using the Black-Scholes pricing model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model:

	Tranche 1	Tranche 2	Tranche 3
Expected volatility	80%	80%	80%
Risk-free interest rate	6.14%	6.14%	6.14%
Life of option	5 years	5 years	5 years
Exercise price	50 cents	65 cents	75 cents

Based on these inputs, the options have been valued at $136,400. Of this amount $91,918 has been expensed to the income statement in “employee benefits expense”. The value of each tranche of options is amortised over their vesting periods.

All options remain unexercised at 31 December 2007.

19. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company’s exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

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

Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company’s activities.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company’s receivables from customers.

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

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company’s reputation.

Contractual maturities for financial liabilities which consists of trade creditors and accruals on a gross cash flow basis are up to 3 months.

19. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

At reporting date, the interest rate profile of the Company's interest-bearing financial instruments was:

	2007 $	2006 $
Variable rate instruments		
Financial assets		
Cash and cash equivalents	2,337,977	2,351,432

The average interest rate in 2007 was 6.25% (2006: 5.75%). The repricing profile of cash and cash equivalents is up to 1 month.

Currency risk

The Company takes exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its position and cash flows.

The Company is not exposed to foreign currency risk on its financial assets and liabilities as all transactions are denominated in the functional currency of the Company, the Australian dollar (AUD).

(d) Net fair value 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 in Note 1.

(e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

From time to time the Company may purchase its own shares on the market, the timing of these purchases depends on market prices. Buy and sell decisions are made on a specific transaction basis by the Board of Directors, the Company does not have a defined share buy-back plan.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

20. 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:

		Company	
		2007	2006
	Note	$	$
Cash and cash equivalents	8	2,337,977	2,351,432

(b) Reconciliation of net loss attributable to equity holders to net cash used in operating activities

	2007	2006
Net loss attributable to equity holders	(402,305)	(243,349)
Adjustments for:		
Share-based payments	91,918	-
Share of loss of equity accounted investee	9,983	-
Changes in assets and liabilities:		
Decrease/(increase) in receivables	21,280	(38,334)
Decrease/(increase) in other current assets	19,310	(26,579)
(Decrease)/increase in payables	(69,521)	83,449
Increase in provisions	8,347	2,211
Net cash used in operating activities	(320,988)	(222,602)

21. RELATED PARTIES

(a) Details of Key Management Personnel

Ross Kestel	–	Non-executive Chairman
David McArthur	–	Executive Director and Company Secretary
Rhod Grivas	–	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.

21. RELATED PARTIES (continued)

(b) Remuneration of Key Management Personnel by the Company (continued)

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.

		Short-term		*Post-employment*	*Share-based payments*	
	Year	**Fees & salary $**	**Non-monetary benefits $**	**Super-annuation $**	**Options & rights $**	**Total $**
R Kestel	**2007**	45,837	-	-	-	45,837
Non-executive chairman	**2006**	15,834	-	-	-	15,834
D McArthur	**2007**	75,000	-	6,756	-	81,756
Executive director & company secretary	**2006**	25,549	-	2,171	-	27,720
R Grivas[1]	**2007**	30,006	-	2,700	91,918	124,624
Non-executive director	**2006**	-	-	-	-	-
D Wood[2]	**2007**	11,113	-	1,000	-	12,113
Non-executive director	**2006**	12,200	-	1,029	-	13,229
Totals	**2007**	**161,956**	**-**	**10,456**	**91,918**	**264,330**
	2006	**53,583**	**-**	**3,200**	**-**	**56,783**

1. Appointed during the 2007 financial year.
2. Resigned during the 2007 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 21(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.

(c) Compensation by category for Key Management Personnel

	Company 2007 $	**2006 $**
Short-term	161,956	53,583
Post employment	10,456	3,200
Share-based payments	91,918	-
	264,330	56,783

NOTES TO THE FINANCIAL STATEMENTS

21. RELATED PARTIES (continued)

(d) Equity instruments

Unlisted option holdings

The 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, is as follows:

	Held at beginning of year	Granted	Exercised	* Other changes	Held at end of year	Vested during the year	Vested and exercisable at end of year
2007							
R Kestel	-	-	-	-	-	-	-
D McArthur	625,000	-	-	(625,000)	-	-	-
R Grivas[1]	-	1,000,000	-	-	1,000,000	300,000	300,000
D Wood	625,000	-	-	(625,000)	-	-	-
2006							
R Kestel	-	-	-	-	-	-	-
D McArthur	-	625,000	-	-	625,000	625,000	-
D Wood	-	625,000	-	-	625,000	625,000	-

* Other changes represent options that expired or were forfeited during the year.

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
2007						
R Kestel	-	-	-	-	-	-
D McArthur	1,000,000	-	625,000	625,000	-	1,000,000
R Grivas[1]	130,000	-	-	-	-	130,000
D Wood[2]	1,543,000	-	-	-	-	1,543,000
2006						
R Kestel	-	-	-	-	-	-
D McArthur	918,500	625,000	-	(243,500)	-	1,300,000
D Wood[2]	782,000	761,000	-	-	(1,543,000)	-

1. Appointed during the 2007 financial year.
2. Resigned during the 2007 financial year. Not a related part at year end.

(e) Other transactions with Key Management Personnel

The Company paid an administration management fee of $50,000 (2006: $50,000) to Broadway Management (WA) Pty Ltd, a company of which Mr McArthur is a director.

The Company paid a consulting fee of $11,000 (2006: $Nil) to Goodheart Pty Ltd, a company of which Mr Grivas is a director.

The Company reimbursed Dioro Exploration NL, a company of which Mr McArthur and Mr Grivas are directors, for an amount of $19,883 (2006: $Nil) for travel expenses.

21. RELATED PARTIES (continued)

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

The Company paid $45,837 (2006: $15,834) in directors fees for Mr Kestel to Nissen Kestel Harford, a company of which Mr Kestel is a director and shareholder.

The Company paid $75,000 (2006: $25,549) in management fees to Mr McArthur for the period.

The Company paid $11,113 (2006: $12,200) in directors fees to Mr Wood for the period.

The Company paid $30,006 (2006: $Nil) in directors fees to Mr Grivas for the period.

22. EVENTS SUBSEQUENT TO BALANCE DATE

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

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

DIRECTORS' DECLARATION

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

   (a) the financial statements and notes, set out on pages 18 to 38, and the remuneration disclosures contained in the Remuneration Report in the directors report, 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 2007 and of its performance, for the year ended on that date; and

      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

   (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(i); and

   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief financial officer for the financial year ended 31 December 2007.

Signed in accordance with a resolution of the Directors.

For and on behalf of the Board.

D M McArthur

D M McARTHUR
Director

31 March 2008
Perth, Western Australia

KPMG

Independent auditor's report to the members of Xstate Resources Limited

Report on the financial report

We have audited the accompanying financial report of Xstate Resources Limited (the Company), which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 22 and the directors' declaration of the company at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion

In our opinion:

(a) the financial report of Xstate Resources Limited is in accordance with the Corporations Act 2001, including:

 (i) giving a true and fair view of the Company's financial position as at 31 December 2007 and of its performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

KPMG

KPMG

J G Robinson

J G Robinson
Partner

Perth
31 March 2008