



XState Resources Limited

ABN 96 009 217 154

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Nedlands WA 6009

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[www.xstate.com.au](http://www.xstate.com.au)

24 February 2010

**ASX Limited**

**Electronic lodgement**

Dear Sir / Madam

**RE: ANNUAL FINANCIAL REPORT**

We attach the annual financial report for XState Resources Limited for the year ended 31 December 2009.

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 LIMITED**

**ABN 96 009 217 154**

**ANNUAL REPORT**

**2009**

**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  
Brett Mitchell

**SECRETARY:**

David McArthur

**REGISTERED AND  
PRINCIPAL OFFICE:**

Level 2, 45 Stirling Highway  
NEDLANDS WA 6009

Telephone: (08) 9423 3200  
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  
Level 8  
235 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**

**OPERATIONS REPORT**

During 2009 Xstate Resources Limited continued to assess a number of possible investment opportunities in an attempt to identify a project that would form a suitable platform for the recapitalisation of the Company.

Unfortunately, to date, no project has been deemed sufficiently attractive to warrant acquisition by Xstate.

The Company has a sound cash balance and will continue its efforts to locate a suitable investment.

In January 2010, Xstate acquired a substantial surface geochemical database covering the main mineral province of Nevada, in the USA.

Nevada is the best gold address in the USA and, arguably, the world with historical gold production in excess of 150 million ounces and existing reserves of more than 70 million ounces of gold and growing. The Nevada state hosts large, world class gold mines such as Carlin and Cortez Hills and is home to the world's largest producers, including Barrick and Newmont.

A 25,000 sample database was collected in the 1980's and 1990's and has remained dormant since that time. The USA does not have a centralised exploration reporting requirement as is compulsory in the Australian states and, as a result, exploration information is often lost as companies relocate exploration focus.

The surface geochemical data was collected primarily from stream sediment samples with some limited follow-up rock chip and soil sampling. A reanalysis of the database with known deposits and discoveries in the last 20 years has highlighted the success of the sampling at defining positive target areas.

The reanalysis of the data, coupled with recent tenement maps and research into other company activities, has highlighted a number of targets in prospective areas, with either vacant land or land owned by prospectors or small junior explorers.

Xstate is planning to complete an extensive reconnaissance field trip and follow up geochemical sampling to prioritise target areas and determine availability and prospectivity.

**XSTATE RESOURCES LIMITED**  
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**DIRECTORS' REPORT**

The Directors present their report together with the financial report of XState Resources Limited ("the Company"), and of the Group, being the Company and its subsidiary, for the financial year ended 31 December 2009 and the auditor's report thereon.

**1. 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 55, is both a Chartered Accountant and Certified Practising Accountant, and has been a director of the accounting practice Nissen Kestel Harford since July 1980. Mr Kestel 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 currently a non executive director of the following ASX listed companies:

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Jabiru Metals Limited	August 2003 to current
VDM Group Limited	August 2005 to current
Resource Star Limited	August 2006 to current
Blackcrest Resources Limited	June 2006 to current
Jatoil Financial Services Limited	September 2007 to current
Regis Resources Limited	July 2009 to current

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Mr Kestel is Chairman of the Audit and Risk Management Committees for various of the above companies and also is a member of their respective Remuneration and Nominations Committee.

During the past three years he has also served as a non-executive director of the following ASX listed companies:

---

Conquest Mining Limited	February 1999 to May 2007
Northern Mining Limited	April 2005 to June 2007
DVM International Limited	April 2005 to November 2007
Equigold NL	April 2005 to June 2008
Dioro Exploration NL	April 2008 to 16 February 2010

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Mr Kestel is a member of the Institute of Company Directors.

Appointed 6 September 2006.

**XSTATE RESOURCES LIMITED**  
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**DIRECTORS' REPORT**

**1. DIRECTORS (continued)**

***David McArthur, Executive director***

Mr McArthur, aged 52, 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 30 years' experience in the accounting profession. Mr McArthur has been actively involved in the financial and corporate management of a number of public listed companies over the past 27 years.

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

Mr McArthur is an executive director of Lodestar Minerals Limited, appointed in August 2007.

During the past three years he has served as director of the following ASX listed companies:

Dioro Explorlation NL	1991 to January 2009
Ellendale Resources NL	1999 to May 2007
Aqua Carotene Limited	January 2008 to May 2008

Appointed 6 September 2006.

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

Mr Grivas, aged 43, 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.

Mr Grivas is a non-executive director of Lodestar Minerals Limited appointed, in August 2007, and an executive director of Dioro Exploration NL, appointed in 2002.

Appointed 29 March 2007

***Brett Mitchell, Non-executive director***

Mr Mitchell, aged 38, holds a Bachelor of Economics degree from the University of Western Australia and has specific experience in the financial markets and resources sectors. Mr Mitchell has worked for both private and publicly listed entities for the past 17 years as a corporate finance executive. Over the past 6 years Mr Mitchell has been working with the Verona Capital Group of companies, including Mirabela Nickel Limited and is currently executive director and company secretary of Wild Horse Energy Limited and Transerv Energy Limited and non-executive director of Quest Petroleum NL.

Appointed 27 August 2009

All directors held their positions as a director throughout the entire financial year unless otherwise stated.

**XSTATE RESOURCES LIMITED**  
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**DIRECTORS' REPORT**

**2. 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.

**3. DIRECTORS' MEETINGS**

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year are:

<b>Director</b>	<b>Board Meetings</b>	
	<b>A</b>	<b>B</b>
Ross Kestel	5	5
David McArthur	5	5
Rhod Grivas	5	5
Brett Mitchell	3	3

**A** - Number of meetings attended

**B** - Number of meetings held during the time the director held office during the year

Brett Mitchell has only attended two of the directors' meetings held during the financial year as he was appointed to the board on 27 August 2009.

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.

**DIRECTORS' REPORT**

**4. REMUNERATION REPORT - AUDITED**

**Principles of Compensation**

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group. Key management personnel comprise the directors of the Company.

The Company has a remuneration policy which aims to provide remuneration that is fair and equitable in terms of external competitiveness.

The policy relates individual remuneration to individual performance, the individual's position in the relevant salary market and the need for the organisation to retain and motivate the individual. No remuneration is directly linked with the overall financial performance of the Group.

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

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

Other than options that may be issued to directors, the directors do not receive performance related compensation, short or long-term incentives, nor any other benefits.

***Fixed compensation***

Fixed compensation consists of base compensation as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the board through a process that considers individual performance. In addition, external consultants provide analysis and advice to ensure the director's compensation is competitive in the market place.

***Long-term incentive***

Subject to shareholder approval, directors may receive options at various times for their ongoing commitment and contribution to the Group.

***Service contracts***

***Executive directors***

On 26 October 2007 an employment agreement, for a 3 year term, was entered into with Mr McArthur, whereby Mr McArthur is paid \$75,000 per annum remuneration plus superannuation. The agreement has a condition that if it is terminated (other than by Mr McArthur) Mr McArthur shall receive a once only payment of 6 month's salary. On 21 April 2008, it was resolved that Mr McArthur's salary be increased to \$80,000 per annum plus superannuation. The amount includes directors' fees of \$45,000.

**XSTATE RESOURCES LIMITED**  
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**DIRECTORS' REPORT**

**4. REMUNERATION REPORT – AUDITED (continued)**

**Principles of Compensation (continued)**

*Non-executive directors*

The compensation for all non-executive directors, as voted by shareholders, is not to exceed \$200,000 per annum in total, and is set based on advice from external advisors with reference to fees paid to other directors of comparable companies. Directors' base fees are presently \$45,000 per annum per director and Chairman's fees are \$55,000 per annum.

**XSTATE RESOURCES LIMITED**

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**DIRECTORS' REPORT**

**4. REMUNERATION REPORT – AUDITED (continued)**

**Directors' remuneration - audited**

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

		Short-term		Total	Post-employment	Share-based	Total	Value of options as proportion of remuneration
		Salary & fees	Non-monetary benefits		Super-annuation	Options		
<b>Executive director</b>								
David McArthur	<b>2009</b>	79,245	5,359	84,604	7,132	-	91,736	0%
	<b>2008</b>	78,338	10,805	89,143	7,391	-	96,534	0%
<b>Non-executive directors</b>				-				
Ross Kestel	<b>2009</b>	54,996	5,359	60,355	-	-	60,355	0%
	<b>2008</b>	57,499	10,805	68,304	-	-	68,304	0%
Rhod Grivas	<b>2009</b>	45,006	5,360	50,366	4,050	6,061	60,477	10%
	<b>2008</b>	43,339	10,805	54,144	3,563	38,421	96,128	40%
Brett Mitchell	<b>2009</b>	15,000	1,850	16,850	-	-	16,850	0%
	<b>2008</b>	-	-	-	-	-	-	0%
<b>Totals</b>	<b>2009</b>	<b>194,247</b>	<b>17,928</b>	<b>212,175</b>	<b>11,182</b>	<b>6,061</b>	<b>229,418</b>	<b>3%</b>
	<b>2008</b>	<b>179,176</b>	<b>32,415</b>	<b>211,591</b>	<b>10,954</b>	<b>38,421</b>	<b>260,966</b>	<b>15%</b>

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**DIRECTORS' REPORT**

**4. REMUNERATION REPORT – AUDITED (continued)**

**Directors' remuneration – audited (continued)**

*Notes in relation to the table of directors' remuneration – audited*

- a) the Company does not employ any executive officers other than the directors;
- b) non-monetary benefits comprise directors' and officers' insurance paid by the company;
- c) the fair value of options granted to Mr Grivas was determined using the Black and Scholes option pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised in this reporting period;
- d) directors fees for Mr Ross Kestel are paid to Nissen Kestel Harford, a company associated with Mr Kestel; and
- e) directors fees for Mr Brett Mitchell are paid to Sibella Capital Pty Ltd, a company associated with Mr Mitchell.

**Equity instruments – audited**

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

*Options and rights over equity instruments granted as compensation – audited*

Details of options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that vested during the reporting period are as follows:

	Number of options granted during 2009	Grant date	Fair value per option at grant date  cents	Exercise price per option  cents	Expiry date	Number of options vested during 2009
<b>Non-executive director</b>						
Rhod Grivas	-	30-May-07	12.70	75.00	30-Apr-12	350,000

No options have been granted as compensation since the end of the financial year. The options were provided at no cost to the recipient.

The options vest over a period from grant date to two years from grant date. These options were issued as an incentive to secure the ongoing commitment to the continued growth of the Company. The earliest exercisable date for the 350,000 options granted was 29 March 2009.

No options were forfeited during the reporting period.

The amount vested in the year represents the expense recognised in accordance with the accounting standards.

*Modification of terms of equity-settled share-based payment transactions – audited*

No terms of equity-settled share-based payment transactions (including options granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

**XSTATE RESOURCES LIMITED**  
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**DIRECTORS' REPORT**

**4. REMUNERATION REPORT – AUDITED (continued)**

**Equity instruments – audited (continued)**

*Exercise of options granted as compensation – audited*

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

*Analysis of movements in options- audited*

During the reporting period, there was no movement, by value, of options over ordinary shares in the Company held by key management.

**5. PRINCIPAL ACTIVITIES**

The Group has an interest in uranium exploration areas in Arizona, USA and an exploration database over Nevada, USA.

**6. OPERATING AND FINANCIAL REVIEW**

<b>Shareholder returns</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net loss attributable to equity holders	(372,643)	(1,975,847)	(815,346)
Basic EPS (cents)	(0.68)	(3.59)	(1.49)
Net tangible assets (NTA)	2,968,699	3,335,281	5,779,057
NTA Backing (cents)	5.39	6.10	10.50

Net loss amounts for 2007 to 2009 have been calculated in accordance with Australian Accounting Standards (AASBs).

At 31 December 2009, XState has uncommitted cash funds totalling \$3,021,991. With strong cash reserves, XState will continue to assess possible investment opportunities.

**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.

**7. DIVIDENDS**

The directors recommend that no dividend be provided for the year ended 31 December 2009.

**8. EVENTS SUBSEQUENT TO REPORTING DATE**

On 21 January 2010, the Company announced the acquisition of a substantial surface geochemical database covering the main mineral provinces of Nevada in the USA. Xstate has signed an agreement to acquire the database for the issuance of 200,000 options with an exercise price of 8 cents on signing of the agreement and the issuance of a further 300,000 options with an exercise price of 10 cents on pegging of the first tenement within Nevada.

**XSTATE RESOURCES LIMITED**  
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**DIRECTORS' REPORT**

**9. LIKELY DEVELOPMENTS**

The Group will continue to assess other investment opportunities.

**10. DIRECTORS' INTERESTS**

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the Company, as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

<b>Director</b>	<b>Ordinary shares</b>	<b>Options over ordinary shares</b>
Ross Kestel	-	-
David McArthur	2,705,523	-
Rhod Grivas	130,000	1,000,000
Brett Mitchell	-	-

**11. SHARE OPTIONS**

**Options granted to directors of the Company**

The company has not granted options during or since the end of the financial year.

**Unissued shares under options**

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

<b>Expiry date</b>	<b>Exercise price cents</b>	<b>Number of shares</b>
30-Apr-12	50	300,000
30-Apr-12	65	350,000
30-Apr-12	75	350,000
		<hr/> <b>1,000,000</b> <hr/>

Further details are included in the Remuneration report in section 4.

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

**Shares issued on exercise of options**

During or since the end of the financial year, no shares were issued as a result of the exercise of options.

**XSTATE RESOURCES LIMITED**  
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**DIRECTORS' REPORT**

**12. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS**

The Company has agreed to indemnify each of the directors, and the company secretary of the Company, against all liabilities to another person (other than the Company) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The directors have not included details of premium for reasons of confidentiality.

**13. NON-AUDIT SERVICES**

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of these non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below:

	<b>Consolidated</b>	
	<b>2009</b>	<b>2008</b>
	\$	\$
<b>Audit services:</b>		
Audit and review of financial reports	58,365	67,572
 <i>Other services</i>		
Taxation compliance services	8,000	5,500
	<hr/> 66,365	<hr/> 73,072
	<hr/> <hr/>	<hr/> <hr/>

**DIRECTORS' REPORT**

**14. LEAD AUDITOR'S INDEPENDENCE DECLARATION**

The lead auditor's independence declaration forms part of the directors' report for the financial year ended 31 December 2009.

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



**DAVID M McARTHUR**

Director

Dated at Perth, Western Australia this 24<sup>th</sup> day of February 2010



***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 2009 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

*G. Hogg*

Graham Hogg  
*Partner*

Perth

24 February 2010

## **CORPORATE GOVERNANCE STATEMENT**

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

### **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 and executive education**

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.

#### **Independent professional advice and access to company information**

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.

**CORPORATE GOVERNANCE STATEMENT**

**BOARD OF DIRECTORS (continued)**

**Composition of the board**

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

The Board 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 ratified by 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 since the last Annual General Meeting are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of directors to retire at that Annual General Meeting. Retiring directors are eligible for re-election by shareholders.

**Independence of directors**

The Board has reviewed the position and association of each of the four directors in office at the date of this report and considers that three of the four directors are independent. In considering whether a director is independent, the Board has regard to the independence criteria in ASX Corporate Governance Principles and Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of the other directors, as appropriate.

**Conflict of Interest**

Directors must keep the Board advised of any interest that could potentially conflict with those of the Company.

**REMUNERATION AND NOMINATION 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 to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

**DIRECTOR REMUNERATION**

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

## **CORPORATE GOVERNANCE STATEMENT**

### **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.

### **RISK MANAGEMENT**

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.

**XSTATE RESOURCES LIMITED**  
**ABN 96 009 217 154**

**CORPORATE GOVERNANCE STATEMENT**

**RISK MANAGEMENT (continued)**

**Environmental regulation**

The Company has a policy of at least complying, but in most cases exceeding, its environmental performance obligations. No environmental breaches have been notified by any Government agency during the year ended 31 December 2009.

**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 Chairman as soon as practicable.

The Code of Conduct is based on respect for the law, and acting accordingly, dealing with conflicts of interest appropriately, using the consolidated entity's assets responsibly and in the best interests of the Company, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

The Group has advised each director, manager and employee that they must comply with the Group's Ethical Standards.

**Trading in Company securities by directors and employees**

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

## **CORPORATE GOVERNANCE STATEMENT**

### **COMMUNICATION WITH SHAREHOLDERS**

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

- as the Company is a disclosing entity, regular announcements are made to the Australian 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;
- 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 required to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

The Board reviews this policy and compliance with it on an ongoing basis.

#### ***Continuous Disclosure***

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

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

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

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

### **ASX CORPORATE GOVERNANCE COUNCIL PRINCIPLES AND 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 Corporate Governance Principles and 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.

**XSTATE RESOURCES LIMITED**  
**ABN 96 009 217 154**

**CORPORATE GOVERNANCE STATEMENT**

**ASX Corporate Governance Council Principles and Recommendations (continued)**

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

*Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives*  
Other than the Board of Directors there are currently no other senior executives.

*Recommendation 2.4: The board should establish a nomination committee.*  
The functions to be performed by a nomination committee under the ASX Corporate Governance Principles and 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 4.1: The board should establish an audit committee.*

*Recommendation 4.2: The audit committee should be structured so that it:*

*4.2.1 consists only of non-executive directors*

*4.2.2 consists of a majority of independent directors*

*4.2.3 is chaired by an independent chair, who is not chair of the board*

*4.2.4 has at least three members.*

*Recommendation 4.3: The audit committee should have a formal charter.*

*Recommendation 4.4: Companies should provide the information indicated in the "Guide to reporting on Principle 4".*

The functions to be performed by an audit committee under the ASX Corporate Governance Principles and 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 Corporate Governance Principles and 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 8.1: The board should establish a remuneration committee.*

The functions to be performed by a remuneration committee under the ASX Corporate Governance Principles and 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.

**XSTATE RESOURCES LIMITED**  
**ABN 96 009 217 154**

**STATEMENTS OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2009**

		<b>Consolidated</b>		<b>Company</b>	
	<b>Note</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Assets</b>					
Cash and cash equivalents	16	3,021,991	3,347,890	3,021,991	2,858,098
Trade and other receivables	15	25,147	29,977	25,147	29,977
<b>Total current assets</b>		<b>3,047,138</b>	<b>3,377,867</b>	<b>3,047,138</b>	<b>2,888,075</b>
Exploration and evaluation expenditure	12	-	-	-	-
Other investments	13	-	-	128	128
Trade and other receivables	15	-	-	-	489,356
<b>Total non-current assets</b>		<b>-</b>	<b>-</b>	<b>128</b>	<b>489,484</b>
<b>Total assets</b>		<b>3,047,138</b>	<b>3,377,867</b>	<b>3,047,266</b>	<b>3,377,559</b>
<b>Liabilities</b>					
Trade and other payables	21	77,151	41,208	77,151	40,772
Employee benefits	19	1,288	1,378	1,288	1,378
<b>Total current liabilities</b>		<b>78,439</b>	<b>42,586</b>	<b>78,439</b>	<b>42,150</b>
<b>Total liabilities</b>		<b>78,439</b>	<b>42,586</b>	<b>78,439</b>	<b>42,150</b>
<b>Net assets</b>		<b>2,968,699</b>	<b>3,335,281</b>	<b>2,968,827</b>	<b>3,335,409</b>
<b>Equity</b>					
Share capital		31,884,265	31,884,265	31,884,265	31,884,265
Reserves		(349,952)	(356,013)	136,400	130,339
Retained earnings		(28,565,614)	(28,192,971)	(29,051,838)	(28,679,195)
<b>Total equity attributable to equity holders of the company</b>		<b>2,968,699</b>	<b>3,335,281</b>	<b>2,968,827</b>	<b>3,335,409</b>

The notes are an integral part of these financial statements.

**XSTATE RESOURCES LIMITED**  
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**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

		<b>Consolidated</b>		<b>Company</b>	
	<b>Note</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Continuing operations</b>					
Other income		289	-	289	-
Administrative expenses	8	(258,917)	(332,547)	(258,701)	(297,982)
Other expenses	9	(169,964)	(541,356)	(170,179)	(2,333,829)
Impairment of exploration expenditure	12	-	(1,984,424)	-	-
<b>Results from operating activities</b>		<b>(428,592)</b>	<b>(2,858,327)</b>	<b>(428,591)</b>	<b>(2,631,811)</b>
Finance income	10	84,763	882,480	84,762	149,613
Finance expenses	10	(28,814)	-	(28,814)	-
<b>Net finance income</b>		<b>55,949</b>	<b>882,480</b>	<b>55,948</b>	<b>149,613</b>
<b>Loss before income tax</b>		<b>(372,643)</b>	<b>(1,975,847)</b>	<b>(372,643)</b>	<b>(2,482,198)</b>
Income tax expense	11	-	-	-	-
<b>Loss from continuing operations</b>		<b>(372,643)</b>	<b>(1,975,847)</b>	<b>(372,643)</b>	<b>(2,482,198)</b>
<b>Loss for the period</b>		<b>(372,643)</b>	<b>(1,975,847)</b>	<b>(372,643)</b>	<b>(2,482,198)</b>
<b>Other comprehensive (expense) / income</b>					
Foreign currency translation difference of foreign operations		-	(506,350)	-	-
<b>Other comprehensive (expense) / income for the period, net of income tax</b>		<b>-</b>	<b>(506,350)</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive expense for the period</b>		<b>(372,643)</b>	<b>(2,482,197)</b>	<b>(372,643)</b>	<b>(2,482,198)</b>
<b>Loss attributable to owners of the Company</b>		<b>(372,643)</b>	<b>(1,975,847)</b>	<b>(372,643)</b>	<b>(2,482,198)</b>
<b>Total comprehensive expense attributable to owners of the Company</b>		<b>(372,643)</b>	<b>(2,482,197)</b>	<b>(372,643)</b>	<b>(2,482,198)</b>
<b>Loss per share</b>					
Basic and diluted (cents per share)		(0.68)	(3.59)		

The notes are an integral part of these financial statements.

**XSTATE RESOURCES LIMITED**  
**ABN 96 009 217 154**

**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**CONSOLIDATED**

	Attributable to equity holders of the Company				
	Equity-based			Accumulated	Total
	Share capital	Translation reserve	benefits reserve	losses	Total
Note	\$	\$	\$	\$	\$
Balance at 1 January 2009	31,884,265	(486,352)	130,339	(28,192,971)	3,335,281
<b>Total comprehensive expense for the period</b>					
Loss for the period	-	-	-	(372,643)	(372,643)
Total other comprehensive expense	-	-	-	-	-
Total comprehensive expense for the period	-	-	-	(372,643)	(372,643)
<b>Transactions with owners, recorded directly in equity</b>					
<b>Contributions by and distributions to owners</b>					
Share-based payment transactions	-	-	6,061	-	6,061
Total contributions by and distributions to owners	-	-	6,061	-	6,061
Total transactions with owners	-	-	6,061	-	6,061
Balance at 31 December 2009	31,884,265	(486,352)	136,400	(28,565,614)	2,968,699

The notes are an integral part of these financial statements.

**XSTATE RESOURCES LIMITED**  
**ABN 96 009 217 154**

**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**CONSOLIDATED**

	Attributable to equity holders of the Company					
	Share capital	Translation reserve	Equity-based benefits reserve	Accumulated losses	Total	
Note	\$	\$	\$	\$	\$	
Balance at 1 January 2008 - restated	31,884,265	19,998	91,918	(26,217,124)	5,779,057	
<b>Total comprehensive expense for the period</b>						
Loss for the period	-	-	-	(1,975,847)	(1,975,847)	
<b>Other comprehensive expense</b>						
Foreign currency translation differences	-	(506,350)	-	-	(506,350)	
Total other comprehensive expense	-	(506,350)	-	-	(506,350)	
Total comprehensive expense for the period	-	(506,350)	-	(1,975,847)	(2,482,197)	
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by and distributions to owners</b>						
Share-based payment transactions	20	-	-	38,421	38,421	
Total contributions by and distributions to owners		-	-	38,421	38,421	
Total transactions with owners		-	-	38,421	38,421	
Balance at 31 December 2008		31,884,265	(486,352)	130,339	(28,192,971)	3,335,281

The notes are an integral part of these financial statements.

**XSTATE RESOURCES LIMITED**  
**ABN 96 009 217 154**

**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

<b>COMPANY</b>	<b>Attributable to equity holders of the Company</b>					
	<b>Note</b>	<b>Share capital</b>	<b>Translation reserve</b>	<b>Equity-based benefits reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at 1 January 2009		31,884,265	-	130,339	(28,679,195)	3,335,409
<b>Total comprehensive expense for the period</b>						
Loss for the period		-	-	-	(372,643)	(372,643)
Total other comprehensive expense		-	-	-	-	-
Total comprehensive expense for the period		-	-	-	(372,643)	(372,643)
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by and distributions to owners</b>						
Share-based payment transactions	20	-	-	6,061	-	6,061
Total contributions by and distributions to owners		-	-	6,061	-	6,061
Total transactions with owners		-	-	6,061	-	6,061
Balance at 31 December 2009		31,884,265	-	136,400	(29,051,838)	2,968,827

The notes are an integral part of these financial statements.

**XSTATE RESOURCES LIMITED**  
**ABN 96 009 217 154**

**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

COMPANY	Attributable to equity holders of the Company				
	Share capital	Translation reserve	Equity-based benefits reserve	Accumulated losses	Total
Note	\$	\$	\$	\$	\$
Balance at 1 January 2008 - restated	31,884,265	-	91,918	(26,196,997)	5,779,186
<b>Total comprehensive expense for the period</b>					
Loss for the period	-	-	-	(2,482,198)	(2,482,198)
Total other comprehensive expense	-	-	-	-	-
Total comprehensive expense for the period	-	-	-	(2,482,198)	(2,482,198)
<b>Transactions with owners, recorded directly in equity</b>					
<b>Contributions by and distributions to owners</b>					
Share-based payment transactions	20	-	-	38,421	38,421
Total contributions by and distributions to owners		-	-	38,421	38,421
Total transactions with owners		-	-	38,421	38,421
Balance at 31 December 2008	31,884,265	-	130,339	(28,679,195)	3,335,409

The notes are an integral part of these financial statements.

**XSTATE RESOURCES LIMITED**  
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**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

	Notes	Consolidated		Company	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Cash paid to suppliers and employees		(382,163)	(835,808)	(375,211)	(411,473)
<b>Net cash used in operating activities</b>	16(b)	<u>(382,163)</u>	<u>(835,808)</u>	<u>(375,211)</u>	<u>(411,473)</u>
<b>Cash flows from investing activities</b>					
Interest received		85,078	156,238	85,077	152,182
Payments for exploration, evaluation and development		-	(996,754)	-	-
Payment to related entity		-	-	482,841	779,412
<b>Net cash from / (used in) investing activities</b>		<u>85,078</u>	<u>(840,516)</u>	<u>567,918</u>	<u>931,594</u>
<b>Cash flows from financing activities</b>					
Receipts from environmental bonds		-	117,324	-	-
<b>Net cash from financing activities</b>		<u>-</u>	<u>117,324</u>	<u>-</u>	<u>-</u>
<b>Net decrease in cash and cash equivalents</b>		(297,085)	(1,559,000)	192,707	520,121
Cash and cash equivalents at 1 January		3,347,890	4,684,429	2,858,098	2,337,977
Effect of exchange rate fluctuations on cash held		(28,814)	222,461	(28,814)	-
<b>Cash and cash equivalents at 31 December</b>	16(a)	<u>3,021,991</u>	<u>3,347,890</u>	<u>3,021,991</u>	<u>2,858,098</u>

The notes are an integral part of these financial statements.

**XSTATE RESOURCES LIMITED**  
**ABN 96 009 217 154**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**1. REPORTING ENTITY**

XState Resources Limited (the “Company”) is a company domiciled in Australia. The address of the Company’s registered office is Level 2, 45 Stirling Highway, Nedlands, Western Australia, 6009. The consolidated financial statements of the Company as at and for the year ended 31 December 2009 comprise the Company and its subsidiary (together referred to as the “Group” and individually as “Group Entities”). The Group operates predominantly in the uranium exploration industry in the United States of America (“USA”) and Australia.

**2. BASIS OF PREPARATION**

**(a) 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 consolidated financial report of the Group and the financial report of the Company comply with International Financial Reporting Standards (IFRS’s) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of the Directors on 24 February 2010.

**(b) Basis of measurement**

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

**(c) Functional and presentation currency**

The consolidated financial statements are presented in Australian dollars, which is the Company’s functional currency and the functional currency of the majority of the Group.

**(d) Use of estimates and judgements**

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described as follows:

*Share-based payments*

As set out in Note 20, share-based payments have been calculated at fair value using the Black & Scholes method and have been recognised as either an employee or professional expense, according to its nature.

**XSTATE RESOURCES LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**2. BASIS OF PREPARATION (continued)**

**(e) Change in accounting policies**

From 1 January 2009, the Group has changed its accounting policies in the following areas:

- Determination and presentation of operating segments
- Presentation of financial statements

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

**(a) Basis of consolidation**

**(i) *Subsidiaries***

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

In the Company's financial statements, investments in subsidiaries are carried at cost.

**(ii) *Transactions eliminated on consolidation***

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

Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

**(b) Foreign currency**

**(i) *Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

**XSTATE RESOURCES LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Foreign currency**

**(ii) *Foreign operations***

The assets and liabilities of foreign operations, and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. 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. Such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

**(c) Financial instruments**

**(i) *Non-derivative financial assets***

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: cash and other receivables.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise other receivables.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in Note 3(g).

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) Financial instruments (continued)**

**(ii) *Non-derivative financial liabilities***

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

**(iii) *Share capital***

***Ordinary Shares***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issues of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

***Dividends***

Dividends are recognised as a liability in the period in which they are declared.

**(d) Impairment**

**(i) *Financial assets (including receivables)***

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

Objective evidence that financial assets (including equitable securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

**XSTATE RESOURCES LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(d) Impairment (continued)**

**(i) *Financial assets (including receivables) (continued)***

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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 asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

**(ii) *Non-financial assets***

The carrying amounts of the Group's non-financial assets, other than 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.

The recoverable amount of an asset or cash-generating unit (CGU) 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(e) Employee benefits**

**(i) *Defined contribution plans***

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contributions plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

**(ii) *Share-based payment transactions***

The share option programme allows Group employees to acquire shares of the Company. The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the options granted is measured using the Black & Scholes formula, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

**(f) Provisions**

A provision is recognised if, as a result of a past event, the Group 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 true value of money and the risks specific to the liability.

***Site Restoration***

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

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) Finance income and finance costs**

Finance income comprises interest income on funds invested and foreign exchange gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise foreign exchange losses on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

**(h) Income tax**

Income tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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 in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted by reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be 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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(i) 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 taxation authority. 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 with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

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.

**(j) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the net 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 comprises share options granted to employees.

**(k) Segment reporting**

As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been represented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(l) Presentation of financial statements**

The Group applies revised AASB 101 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

**(m) 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 2009, but have not been applied in preparing this financial report.

AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 31 December 2010 financial statements, are not expected to have a significant impact on the financial statements.

**4. DETERMINATION OF FAIR VALUES**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

*Trade and other receivables*

Trade and other receivables are short-term in nature. As a result, the fair value of these instruments is considered to approximate its carrying value.

*Non-derivative financial liabilities*

Trade and other payables are short term in nature. As a result, the fair value of these instruments is considered to approximate its carrying value.

*Share-based payment transactions*

The fair value of employee stock options is measured using the Black and Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

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**5. FINANCIAL RISK MANAGEMENT**

**Overview**

The Company and Group have exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's and Group'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 these financial statements.

**Risk Management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

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

**Credit Risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. For the Company it arises from receivables due from subsidiaries.

The Group undertook exploration and evaluation activities exclusively in the USA. At the balance sheet date there were no significant concentrations of credit risk.

***Cash and cash equivalents***

The Group limits its exposure to credit risk by only depositing with authorised banking institutions and only with counterparties that have an acceptable credit rating.

***Trade and other receivables***

As the Group operates primarily in exploration activities, it does not have trade receivables and therefore is not exposed to credit risk in relation to trade receivables.

Management does not expect any counterparty to fail to meet its future obligations and therefore the Company and Group have not established an allowance for impairment that represents their estimate of incurred losses in respect of intercompany loans and receivables and investments.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**5. FINANCIAL RISK MANAGEMENT (continued)**

**Liquidity Risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

**Market Risk**

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

**Currency Risk**

During the 2008 financial year, the Group was exposed to currency risks on intercompany loans that were denominated in a currency other than the respective functional currencies of Group entities, which is primarily the Australian dollar (AUD). The currencies in which these transactions were primarily denominated were AUD and USD.

The Group has not entered into any derivative financial instruments to hedge such transactions.

**Interest Rate Risk**

The Group has interest rate risk relating to its funds on deposit with banking institutions. The Group does not hedge their exposure (see note 22(d) for sensitivity analysis).

**Capital Management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. The Group's focus has been to raise sufficient funds through equity to fund exploration and evaluation activities.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**6. OPERATING SEGMENTS**

The Group operates predominantly in the uranium exploration industry in the USA.

	<b>Segment revenue</b>		<b>Segment loss</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Continuing operations</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Uranium	-	-	(490)	(2,020,404)
	-	-	(490)	(2,020,404)
Central administration and directors' salaries			(428,102)	(837,923)
Finance expense (including foreign currency translation)			(28,814)	-
Finance income (including foreign currency translation)			84,763	882,480
Loss before tax			(372,643)	(1,975,847)
			(372,643)	(1,975,847)
<b>Consolidated segment loss for the period</b>			<b>(372,643)</b>	<b>(1,975,847)</b>
<b>Continuing operations</b>				
Reportable segment assets - corporate			3,047,138	3,377,867

**7. PERSONNEL EXPENSES**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Contributions to defined contribution plans	11,182	10,954	11,182	10,954
Decrease in liability for annual leave	(1,027)	(788)	(1,027)	(788)
Equity-settled share-based payment transactions	6,061	38,421	6,061	38,421
Directors remuneration	194,247	179,176	194,247	179,176
Other associated personnel expenses	17,928	32,415	17,928	32,415
	228,391	260,178	228,391	260,178

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**8. ADMINISTRATIVE EXPENSES**

	Notes	Consolidated		Company	
		2009	2008	2009	2008
		\$	\$	\$	\$
Personnel expenses	7	228,391	260,178	228,391	260,178
Advertising and publicity		4,598	311	4,598	311
Communication and information services		2,913	4,361	2,913	4,361
Office administration		5,161	43,028	5,161	8,661
Bank charges		458	482	242	284
Share registry and statutory fees		17,396	24,187	17,396	24,187
		<u>258,917</u>	<u>332,547</u>	<u>258,701</u>	<u>297,982</u>

**9. OTHER EXPENSES**

Professional fees		168,655	153,718	162,846	153,718
Contract breaking fee		-	351,658	-	-
Impairment of intercompany loan		-	-	6,515	2,180,111
Site restoration expenses		491	35,980	-	-
Other expenses		818	-	818	-
		<u>169,964</u>	<u>541,356</u>	<u>170,179</u>	<u>2,333,829</u>

**10. FINANCE INCOME AND EXPENSE**

Interest income on bank deposits		84,763	153,669	84,762	149,613
Net foreign exchange gain		-	728,811	-	-
Finance income		<u>84,763</u>	<u>882,480</u>	<u>84,762</u>	<u>149,613</u>
Net foreign exchange loss		<u>(28,814)</u>	<u>-</u>	<u>(28,814)</u>	<u>-</u>
Finance expense		<u>(28,814)</u>	<u>-</u>	<u>(28,814)</u>	<u>-</u>
Net finance income recognised in profit or loss		<u>55,949</u>	<u>882,480</u>	<u>55,948</u>	<u>149,613</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**11. INCOME TAX EXPENSE**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
<b>Current tax benefit</b>				
Current period	(107,680)	(109,007)	(105,578)	(87,327)
	<u>(107,680)</u>	<u>(109,007)</u>	<u>(105,578)</u>	<u>(87,327)</u>
<b>Deferred tax benefit</b>				
Origination and reversal of temporary differences	107,680	109,007	105,578	87,327
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Numerical reconciliation between tax expense and pre-tax accounting loss</b>				
Loss for the period	(372,643)	(1,975,847)	(372,643)	(2,482,198)
Total income tax expense	-	-	-	-
Loss excluding income tax	<u>(372,643)</u>	<u>(1,975,847)</u>	<u>(372,643)</u>	<u>(2,482,198)</u>
Income tax using the Company's domestic tax rate of 30% (2008: 30%)	(111,793)	(592,754)	(111,793)	(744,659)
Non-deductible expenses	1,818	481,545	3,773	665,924
Tax losses not brought to account	109,975	111,209	108,020	78,735
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Tax losses</b>				
Unused tax losses for which no deferred tax asset has been recognised	942,644	576,863	942,644	576,863
Potential tax benefit at 30% (2008: 30%)	<u>282,793</u>	<u>173,059</u>	<u>282,793</u>	<u>173,059</u>

All unused tax losses were incurred by Australian entities.

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**11. INCOME TAX EXPENSE (continued)**

Potential future income tax benefits of \$282,793 (2008: \$173,059) 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;
- iii) no changes in tax legislation adversely affect the Company in realising the benefit; and
- iv) satisfaction of either the continuity of ownership or the same business test.

**12. EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
Costs carried forward in respect of areas of interest - Exploration phase	-	-	-	-
Opening balance	-	987,670	-	-
Exploration for the period	-	996,754	-	-
Impairment loss on exploration tenements	-	(1,984,424)	-	-
	-	-	-	-

**13. OTHER INVESTMENTS**

**Non-current**

Investment in Xstate Arizona Inc	-	-	128	128
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**14. DEFERRED TAX ASSETS AND LIABILITIES**

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

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Consolidated</b>						
Trade and other receivables	-	-	(2,758)	(2,853)	(2,758)	(2,853)
Black hole deductible costs	14,167	17,131	-	-	14,167	17,131
Trade and other payables	7,200	3,000	-	-	7,200	3,000
Employee benefits	386	413	-	-	386	413
Carry forward tax losses	282,793	200,777	-	-	282,793	200,777
	<b>304,546</b>	<b>221,321</b>	<b>(2,758)</b>	<b>(2,853)</b>	<b>301,788</b>	<b>218,468</b>

The Group 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.

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Company</b>						
Trade and other receivables	-	-	(2,758)	(2,853)	(2,758)	(2,853)
Black hole deductible costs	14,167	17,131	-	-	14,167	17,131
Trade and other payables	7,200	3,000	-	-	7,200	3,000
Employee benefits	386	413	-	-	386	413
Carry forward tax losses	282,793	173,059	-	-	282,793	173,059
	<b>304,546</b>	<b>193,603</b>	<b>(2,758)</b>	<b>(2,853)</b>	<b>301,788</b>	<b>190,750</b>

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.

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**15. OTHER RECEIVABLES**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
<b>Current</b>				
Accrued interest income	9,193	9,508	9,193	9,508
Prepayments	10,117	13,718	10,117	13,718
GST receivable	5,837	6,751	5,837	6,751
	<u>25,147</u>	<u>29,977</u>	<u>25,147</u>	<u>29,977</u>
<b>Non-current</b>				
Receivables due from subsidiary	-	-	-	489,356

**16. CASH AND CASH EQUIVALENTS**

**(a) Reconciliation of cash and cash equivalents**

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 22.

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
Cash and cash equivalents in the statement of cash flows	<u>3,021,991</u>	<u>3,347,890</u>	<u>3,021,991</u>	<u>2,858,098</u>

The perceived credit risk is low as cash and cash equivalents are with authorised deposit taking institutions.

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**16. CASH AND CASH EQUIVALENTS (continued)**

**(b) Reconciliation of cash flows from operating activities**

		<b>Consolidated</b>		<b>Company</b>	
		<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Loss for the period		(372,643)	(1,975,847)	(372,643)	(2,482,198)
Adjustments for:					
Finance income	10	(84,763)	(153,669)	(84,762)	(149,613)
Impairment of intercompany loan	9	-	-	6,516	2,180,111
Exploration expenditure written off	12	-	1,984,424	-	-
Equity-settled share-based payment transactions	7	6,061	38,421	6,061	38,421
Annual leave expense	7	(1,027)	(788)	(1,027)	(788)
Net (gain) / loss on foreign exchange translations	10	28,814	(728,811)	28,814	-
		<u>(423,558)</u>	<u>(836,270)</u>	<u>(417,041)</u>	<u>(414,067)</u>
Change in other receivables	15	914	(786)	914	(786)
Change in trade and other payables	21	35,943	6,728	36,378	8,859
Change in prepayments	15	3,601	2,912	3,601	2,913
Change in provisions and employee benefits	19	937	(8,392)	937	(8,392)
<b>Net cash used in operating activities</b>		<u><u>(382,163)</u></u>	<u><u>(835,808)</u></u>	<u><u>(375,211)</u></u>	<u><u>(411,473)</u></u>

**17. CAPITAL AND RESERVES**

**(a) Reserves**

***Equity-based benefits reserve***

The equity-based benefits reserve represents the cost of options that have been granted as share-based payments but not exercised. This reserve will be transferred to capital should these options be exercised or reversed through profit and loss should certain vesting conditions not be met.

***Foreign currency translation reserve***

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

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**17. CAPITAL AND RESERVES (continued)**

**(b) Share capital**

	<b>Ordinary shares</b>	
	<b>2009</b>	<b>2008</b>
	<b>Number</b>	<b>Number</b>
On issue at 1 January	55,079,593	55,079,593
On issue at 31 December	55,079,593	55,079,593
	55,079,593	55,079,593

The Company has also issued share options (see note 20).

All issued shares are fully paid.

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

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

**18. LOSS PER SHARE**

**Basic loss per share**

The calculation of basic loss per share at 31 December 2009 was based on the loss attributable to ordinary shareholders of \$372,643 (2008: \$1,975,847) and a weighted average number of ordinary shares outstanding of 55,079,593 (2008: 55,079,593) calculated as follows:

*Loss attributable to ordinary shareholders*

	<b>Consolidated</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Loss for the period	(372,643)	(2,482,197)
	(372,643)	(2,482,197)

*Weighted average number of ordinary shares (basic)*

	<b>Consolidated</b>	
	<b>2009</b>	<b>2008</b>
	<b>Number</b>	<b>Number</b>
Issued ordinary shares at 1 January	55,079,593	55,079,593
Effect of shares issued during the year	-	-
	55,079,593	55,079,593
	55,079,593	55,079,593

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**18. LOSS PER SHARE (continued)**

**Diluted loss per share**

The calculation of diluted loss per share at 31 December 2009 was based on the loss attributable to ordinary shareholders of \$372,643 (2008: \$1,975,847) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 55,079,593 (2008: 55,079,593) calculated as follows:

*Weighted average number of ordinary shares (diluted)*

	<b>Consolidated</b>	
	<b>2009</b>	<b>2008</b>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares (basic)	55,079,593	55,079,593
Effect of share options on issue	-	-
	<u>55,079,593</u>	<u>55,079,593</u>

**19. EMPLOYEE BENEFITS**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Current</b>				
Liability for annual leave	351	1,378	351	1,378
Liability for superannuation	937	-	937	-
	<u>1,288</u>	<u>1,378</u>	<u>1,288</u>	<u>1,378</u>

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**20. SHARE-BASED PAYMENT PLANS**

**Unlisted options**

An employee option plan has been established which enables the Company to issue key management personnel options over the ordinary shares of the Company. The options, issued for nil consideration, are issued in accordance with guidelines established by the directors of the Company. The options cannot be transferred and will not be quoted on the ASX. There are no voting rights attached to the options unless converted into ordinary shares. All options to date are granted at the discretion of the directors.

The terms and conditions of the grants are as follows:

<b>Tranche</b>	<b>Grant date</b>	<b>Vesting date</b>	<b>Number of instruments</b>	<b>Vesting conditions</b>	<b>Contractual life of options</b>
1	30-May-2007	30-May-2007	300,000	Vested upon granting	4.92 years
2	30-May-2007	29-March-2008	350,000	10 months	4.92 years
3	30-May-2007	29-March-2009	350,000	22 months	4.92 years
			1,000,000		

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

	<b>Weighted average exercise price 2009</b>	<b>Number of options 2009</b>	<b>Weighted average exercise price 2008</b>	<b>Number of options 2008</b>
Outstanding at 1 January	64 cents	1,000,000	64 cents	1,000,000
Outstanding at 31 December	64 cents	1,000,000	64 cents	1,000,000
Exercisable at 31 December	64 cents	1,000,000	58 cents	650,000

The options outstanding at 31 December 2009 have an exercise price in the range of 50 cents to 75 cents and a weighted average contractual life of 2.33 years (2008: 4.02 years).

No options were granted, exercised or forfeited during the year (2008: no options granted, exercised or forfeited).

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**20. SHARE-BASED PAYMENT PLANS (continued)**

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black Scholes options pricing model, with the following inputs:

<i>Fair value of share options and assumptions</i>	<b>Tranche 1</b>	<b>Tranche 2</b>	<b>Tranche 3</b>
Fair value at grant date	14.9 cents	13.5 cents	12.7 cents
Share price	26.5 cents	26.5 cents	26.5 cents
Exercise price	50 cents	65 cents	75 cents
Expected volatility	80%	80%	80%
Option life	4.92 years	4.92 years	4.92 years
Vesting period	- years	0.83 years	1.83 years
Risk free rate	6.14%	6.14%	6.14%

Expected volatility is estimated by considering historic average share price volatility.

	<b>2009</b>	<b>2008</b>
	\$	\$
Share options granted / vested in 2008	-	38,421
Share options granted / vested in 2009	6,061	-
Total expense recognised as employee costs	<u>6,061</u>	<u>38,421</u>

The value of each tranche of options is recognised as employee expenses over their respective vesting periods.

All options remain unexercised at 31 December 2009.

**21. TRADE AND OTHER PAYABLES**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
<b>Current</b>				
Trade payables	20,811	23,007	20,811	22,572
Non-trade payables and accrued expenses	56,340	18,201	56,340	18,200
	<u>77,151</u>	<u>41,208</u>	<u>77,151</u>	<u>40,772</u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 22.

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**22. FINANCIAL INSTRUMENTS**

**(a) Credit risk**

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	<b>Carrying amount</b>			
	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
Other receivables	25,147	29,977	25,147	519,333
Cash and cash equivalents	3,021,991	3,347,890	3,021,991	2,858,098
	3,047,138	3,377,867	3,047,138	3,377,431
	3,047,138	3,377,867	3,047,138	3,377,431

None of the Group's receivables are past due.

**(b) Liquidity risk**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 mths or less</b>
	\$	\$	\$
<b>31 December 2009</b>			
<i>Consolidated</i>			
<b>Non-derivative financial liabilities</b>			
Trade and other payables	77,151	(77,151)	(77,151)
	77,151	(77,151)	(77,151)
	77,151	(77,151)	(77,151)
<i>Company</i>			
<b>Non-derivative financial liabilities</b>			
Trade and other payables	77,151	(77,151)	(77,151)
	77,151	(77,151)	(77,151)
	77,151	(77,151)	(77,151)
<b>31 December 2008</b>			
<i>Consolidated</i>			
<b>Non-derivative financial liabilities</b>			
Trade and other payables	41,208	(41,208)	(41,208)
	41,208	(41,208)	(41,208)
	41,208	(41,208)	(41,208)
<i>Company</i>			
<b>Non-derivative financial liabilities</b>			
Trade and other payables	40,772	(40,772)	(40,772)
	40,772	(40,772)	(40,772)
	40,772	(40,772)	(40,772)

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**22. FINANCIAL INSTRUMENTS (continued)**

**(c) Foreign currency risk management**

The Group and the Company is not exposed to foreign currency risk.

During the financial year ended 31 December 2008, the Group was exposed to exchange rate fluctuations due to US Dollar cash and cash equivalents held. The AUD equivalent of cash and cash equivalents held was \$489,791.

**(d) Interest rate risk**

*Profile*

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

	Carrying amount			
	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Variable rate instruments</b>				
Financial assets	3,021,991	2,858,098	3,021,991	2,858,098
	3,021,991	2,858,098	3,021,991	2,858,098
	3,021,991	2,858,098	3,021,991	2,858,098

*Fair value sensitivity analysis for fixed rate instruments*

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

*Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2008.

	Profit or loss	
	100bp increase	100bp decrease
	\$	\$
<b>31 December 2009</b>		
Variable rate instruments	30,220	(30,220)
Cash flow sensitivity	30,220	(30,220)
	30,220	(30,220)
<b>31 December 2008</b>		
Variable rate instruments	28,581	(28,581)
Cash flow sensitivity	28,581	(28,581)
	28,581	(28,581)

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

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**22. FINANCIAL INSTRUMENTS (continued)**

**(e) Fair values of financial assets and liabilities**

The fair values of the financial assets and liabilities at balance date of the Group and the Company approximate the carrying amounts in the financial statements.

**23. RELATED PARTIES**

**(a) Key management personnel compensation**

The key management personnel compensation included in 'personnel expenses' (see note 7) is as follows:

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
Short term employee benefits	212,175	211,591	212,175	211,591
Post-employment benefits	11,182	10,954	11,182	10,954
Share-based payments	6,061	38,421	6,061	38,421
	<u>229,418</u>	<u>260,966</u>	<u>229,418</u>	<u>260,966</u>

**(b) Individual directors and executives compensation**

Information regarding individual directors and executive's compensation and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the directors' report.

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

**(c) Key management personnel and director transactions**

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

A number of these entities (as detailed below) transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might be reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

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**23. RELATED PARTIES (continued)**

**(c) Key management personnel and director transactions (continued)**

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

		Note	Transactions value		Balance outstanding	
			year ended 31 December		as at 31 December	
			2009	2008	2009	2008
			\$	\$	\$	\$
<b>Key management person</b>	<b>Transaction</b>					
David McArthur	Management fee	(i)	65,000	61,250	5,958	5,958
Rhod Grivas	Consulting services	(ii)	8,400	7,700	9,240	-
Total and current liabilities					15,198	5,958

The Company paid a management fee to Broadway Management Pty Ltd, a company associated with Mr McArthur

The Company paid consulting fees to Goodheart Pty Ltd, a company associated with Mr Grivas.

**(d) Options and rights over equity instruments**

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

	** Held at 1 January 2009	Granted as compen- sation	Exercised	* Other changes	*** Held at 31 December 2009	Vested during the year	Vested and exercisable at 31 December 2009
<b>Directors</b>							
Rhod Grivas	1,000,000	-	-	-	1,000,000	350,000	1,000,000
	** Held at 1 January 2008	Granted as compen- sation	Exercised	* Other changes	*** Held at 31 December 2008	Vested during the year	Vested and exercisable 31 December 2008
<b>Directors</b>							
Rhod Grivas	1,000,000	-	-	-	1,000,000	350,000	650,000

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

\*\* Or date of appointment

\*\*\* Or date of resignation

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**23. RELATED PARTIES (continued)**

**(e) Movements in shares**

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

	<b>* Held at 1 January 2009</b>	<b>Purchases</b>	<b>Received on exercise of options</b>	<b>Sales</b>	<b>** Held at 31 December 2009</b>
<b>Directors</b>					
David McArthur	1,879,500	826,023	-	-	2,705,523
Rhod Grivas	130,000	-	-	-	130,000
	<b>* Held at 1 January 2008</b>	<b>Purchases</b>	<b>Received on exercise of options</b>	<b>Sales</b>	<b>** Held at 31 December 2008</b>
<b>Directors</b>					
David McArthur	2,300,000	535,000	-	(955,500)	1,879,500
Rhod Grivas	130,000	-	-	-	130,000

\* Or date of appointment.

\*\* Or date of resignation.

No shares were granted to key management personnel during the reporting period as compensation in 2008 or 2009.

**(f) Other related parties**

Contributions to superannuation funds on behalf of employees are disclosed in note 7.

**24. GROUP ENTITIES**

Name	Place of incorporation	Financial year end	2009 %	2008 %
<b>Parent entity</b>				
Xstate Resources Limited	Australia	31 December		
<b>Subsidiary</b>				
Xstate Resources (Arizona) Inc	USA	31 December	100	100

**25. SUBSEQUENT EVENTS**

On 21 January 2010, the Company announced the acquisition of a substantial surface geochemical database covering the main mineral provinces of Nevada in the USA. Xstate has signed an agreement to acquire the database for the issuance of 200,000 options with an exercise price of 8 cents on signing of the agreement and the issuance of a further 300,000 options with an exercise price of 10 cents on pegging of the first tenement within Nevada.

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**26. AUDITORS' REMUNERATION**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
<b>Audit services:</b>				
<i>Auditors of the Company:</i>				
KPMG Australia:				
Audit and review of financial reports	58,365	67,572	58,365	67,572
 <i>Auditors of the Subsidiary:</i>				
Semple, Marchal, Cooper (USA)				
Audit and review of financial reports	-	6,622	-	6,622
	58,365	74,194	58,365	74,194
	58,365	74,194	58,365	74,194
 <b>Other services:</b>				
<i>Auditors of the Company:</i>				
KPMG Australia:				
Tax compliance services	8,000	5,500	8,000	5,500
 <i>Auditors of the Subsidiary:</i>				
Beach, Fleischman & Co (USA)				
Tax compliance services	-	2,622	-	2,622
	8,000	8,122	8,000	8,122
	8,000	8,122	8,000	8,122

**XSTATE RESOURCES LIMITED**  
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**DIRECTORS' DECLARATION**

- 1 In the opinion of the directors of Xstate Resources Limited (the "Company"):
  - (a) the financial statements and notes, and the Remuneration report set out in section 4 of the Directors' Report, are 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 2009 and of their performance, for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a);
  - (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 executive officer and chief financial officer for the financial year ended 31 December 2009.

Signed in accordance with a resolution of the directors:

Dated at Perth this 24<sup>th</sup> day of February 2010.



**DAVID McARTHUR**  
Director



## **Independent auditor's report to the members of XState Resources Limited**

### **Report on the financial report**

We have audited the accompanying financial report of XState Resources Limited (the company), which comprises the statements of financial position as at 31 December 2009, and statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 26 and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation 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. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 and the Group's financial position and of their performance.

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



*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

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

- (i) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2009 and of their 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 of the Group also complies with International Financial Reporting Standards as disclosed in note 2(a).

**Report on the remuneration report**

We have audited the Remuneration Report included in section 4 of the directors' report for the year ended 31 December 2009. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of XState Resources Limited for the year ended 31 December 2009, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Graham Hogg  
*Partner*

Perth

24 February 2010

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**STOCK EXCHANGE INFORMATION**

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below.

**1. SHAREHOLDER INFORMATION**

**(a) Distribution of equity security holders at 24 February 2010**

<b>Category</b>			<b>Number of equity security holders</b>	
			<b>Ordinary shares</b>	<b>Options</b>
1	-	1,000	655	-
1,001	-	5,000	123	-
5,001	-	10,000	95	-
10,001	-	100,000	226	-
100,001	and	over	83	1
			1,182	1

The number of shareholders holding less than a marketable parcel of ordinary shares is 811.

**(b) Voting rights**

***Ordinary shares***

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

***Options***

There are no voting rights attached to the options.

**(c) Substantial shareholders**

The number of shares held by substantial shareholders and their associates are set out below:

<b>Name</b>	<b>Number of Shares</b>
Suburban Holdings Pty Ltd	4,496,449
Mr George Sim	3,185,000

**(d) Unlisted 30 April 2012 Options**

There are 1,000,000 options held by 1 holder on issue and are exercisable between \$0.50 and \$0.75 on or before 30 April 2012.

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**AUSTRALIAN SECURITIES EXCHANGE INFORMATION**

**2. QUOTATION**

Listed securities in Xstate Resources Limited are quoted on the Australian Securities Exchange.

**3. AUDIT COMMITTEE**

As at the date of the Directors' Report, the Company did not have an audit committee of the board of directors. The Company is not of a size, nor are the affairs of a complexity, sufficient to warrant the existence of a separate audit committee. All matters that could be delegated to such a committee are dealt with by the full Board.

**4. TOP TWENTY SHAREHOLDERS**

The Top Twenty Shareholders as at 24 February 2010 are set out below:

Name	Number of ordinary shares held	Percentage of capital held
1 Suburban Shareholdings Pty Ltd	4,496,449	8.16
2 Mr George Sim	3,185,000	5.78
3 DASMAL (WA) Pty Ltd <McArthur Famil Super A/C >	2,544,682	4.62
4 Mr Joseph Charles Camuglia & Mrs Kirsten Ingret Camuglia	2,495,000	4.53
5 Mr Craig Burton	2,400,000	4.36
6 Mr Ian Burton	2,400,000	4.36
7 Canemoon Investments Pty Ltd	1,902,500	3.45
8 Armelek Pty Ltd	1,892,500	3.44
9 Mr Anthony Stephen Crimmins	1,866,900	3.39
10 Cadogan Grove Pty Ltd	1,840,000	3.34
11 Bond Street Custodians Limited	1,396,315	2.54
12 Far East Capital Limited	1,290,000	2.34
13 Mrs Linda Kerr & Mr Mark Kerr	750,000	1.36
14 Mr Peter Hough	650,000	1.18
15 Mr David John Anderson	620,000	1.13
16 Bo & Tut Developers Pty Ltd	613,000	1.11
17 Mr Errol Bome & Mrs Melanie Bome	574,167	1.04
18 Marlion Superannuation Pty Ltd	550,000	1.00
19 Mr David Sarkis	500,000	0.91
20 Rosalea Pty Ltd	500,000	0.91
	32,466,513	58.94