ABN 96 009 217 154

24 March 2011

ASX Limited

Electronic lodgement

2010 ANNUAL REPORT

Dear Sir / Madam

RE: ANNUAL FINANCIAL REPORT

We attach the annual financial report for XState Resources Limited for the year ended 31 December 2010.

For and on behalf of the board

41 Stirling Highway, Nedlands WA 6009
Tel + 61 8 9423 3200 Fax +61 8 9389 8327
www.xstate.com.au

XSTATE RESOURCES LIMITED

ABN 96 009 217 154

ANNUAL REPORT

2010

CONTENTS

COMPANY DIRECTORY

DIRECTORS AND COMPANY SECRETARY:

David Whitby
Non-executive Chairman
Appointed 11 February 2011

Gary Jeffery
Managing Director
Appointed 8 July 2010

John Begg
Non-executive director
Appointed 8 July 2010

Ross Kestel
Non-executive director

Brett Mitchell
Non-executive director

David McArthur
Executive director and Company Secretary
Resigned as director 8 July 2010

Rhod Grivas
Non-executive director
Resigned 8 July 2010

REGISTERED OFFICE:

41 Stirling Highway	PO Box 985
NEDLANDS	NEDLANDS
WA 6009	WA 6909
Telephone:	+61 8 9423 3200
Facsimile:	+61 8 9389 8327

PRINCIPAL OFFICE:

208 Bagot Road	PO Box 805
SUBIACO	SUBIACO
WA 6008	WA 6904
Telephone:	+61 8 9381 4215
Facsimile:	+61 8 9381 9386

SHARE REGISTRY:

Advanced Share Registry Services
110 Stirling Highway
NEDLANDS
WA 6009

Telephone: +61 8 9389 8033
Facsimile: +61 8 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

WEBSITE AND EMAIL:

www.XState.com.au
info@XState.com.au

SECURITIES EXCHANGE:

XState Resources Limited shares are listed on the Australian Securities Exchange (ASX) – code XST

CHAIRMAN'S LETTER

Dear Shareholders,

It is with great pleasure that I have accepted an invitation to join the Board of XState as its Chairman. I am looking forward to working with the XState team to progress the Company's ambitious aspirations.

To kick things off I recently completed a review of the company's assets and I have concluded that XState has an unparalleled future in front of it. I have been very impressed by the high quality of the management and staff, and the quality and depth of the Company's assets.

Our assets are in a proven hydrocarbon basin, with open access to substantial gas processing and transportation infrastructure; we are on the doorstep to the energy hungry EU market; and we have great partners and mega-major neighbours. I think it is fair to characterise XState as being *"the smallest house on the best street in town."*

In particular, I am very excited about the 3 gas discoveries in our acreage and the many "high chance of success" targets in the Prospects and Leads inventory. I have spent a substantial part of my career successfully monetising gas fields internationally and it is now my goal to use this extensive expertise to make XState a significant gas producer. Any oil we discover along the way will be the "cream on the cake."

So, in conjunction with your Board, I have set the goal:

"For XState to become a significant gas producer utilising existing infrastructure to access the energy hungry and high priced European Union market through a development of our gas discoveries and through prudent exploration of the Company's extensive Prospects and Leads inventory in the Mediterranean Pelagian Basin"

I look forward to working as part of the XState team to bring this goal to fruition in the next few years and to adding substantial shareholder value to our Company.

David Whitby
Chairman
XState Resources Limited

OPERATIONS REPORT

INVESTMENT AND ASSET STRATEGY

The Company has adopted a strategic focus to develop its existing oil and gas assets in the proven Pelagian Oil and Gas Basin and evaluating new opportunities in this hydrocarbon rich Mediterranean region.

As noted in the Chairman's letter to shareholder, the Board has set the goal:

"For XState to become a significant gas producer utilising existing infrastructure to access the energy hungry and high priced European Union market through a development of our gas discoveries and through prudent exploration of the Company's extensive Prospects and Leads inventory in the Mediterranean Pelagian Basin."

OPERATIONS REPORT

During 2010, XState Resources Limited transformed itself into an active oil and gas exploration company, and in the space of the last 9 months has achieved the majority of the significant milestones set out in the May 2010 prospectus:

	2010 XState Activity and Key Achievements
March 2010	3D seismic acquired and processed on offshore blocks (770 km^2)
May 2010	Seismic analysed and interpreted
May 2010	XState announces acquisition of Bombora Energy
June 2010	Lambouka-1 well location selection from 3D seismic interpretation
July 2010	XState completes Bombora acquisition
Aug 2010	Lambouka-1 well drilled and discovers gas and condensate
Oct-Dec 2010	Independent review of Dougga Gas Condensate Discovery by TRACS – AGR
Oct-Dec 2010	Review of Chorbane geology and geophysics data and selection of well location, then site preparations and contracting of rig and services for onshore Sidi Dhaher-1 well.

Table 1: 2010 XState Key Achievements

	Post Year End Activities:
Jan 2011	Renewal of Kerkouane Permit for 3 years
Jan-Feb 2011	Well site preparations for Sidi Dhaher continue, ready for drill rig
2011	Release of AGR-TRACS Contingent Resources Assessment for Dougga Discovery-results are currently under review by XState

Table 2: 2011 Year to Date XState Achievements

After a quiet start to 2010, the Company announced on 4 May 2010 it had entered an agreement to acquire Bombora Energy Limited. The company successfully completed a recapitalisation and re-listed on the ASX on 12 July 2010 after raising $1.5 million of working capital to complete the acquisition of Bombora Energy Limited (now known as XState Mediterranean Pty Ltd).

XState, via its 100% owned subsidiary XState Mediterranean Pty Ltd, holds equity interests in the following oil and gas projects (Assets) in Tunisia and Italy:

Permits	Equity Interest
Tunisia onshore - Chorbane exploration acreage (Sidi Dhaher well)	10% Chorbane covers 2,428 km^2
Tunisia offshore - Kerkouane exploration acreage (Dougga, Lambouka and Kerkouane gas/condensate discoveries)	10% (option to increase to 20%; but Lambouka Prospect Area (150 km^2) remains at 10%) Kerkouane covers 3080 km^2
Italy offshore - G.R.15.PU (Pantelleria) permit	10% (option to increase to 20%; Lambouka Prospect Area (150 km^2) remains at 10%) Pantelleria covers 645 km^2

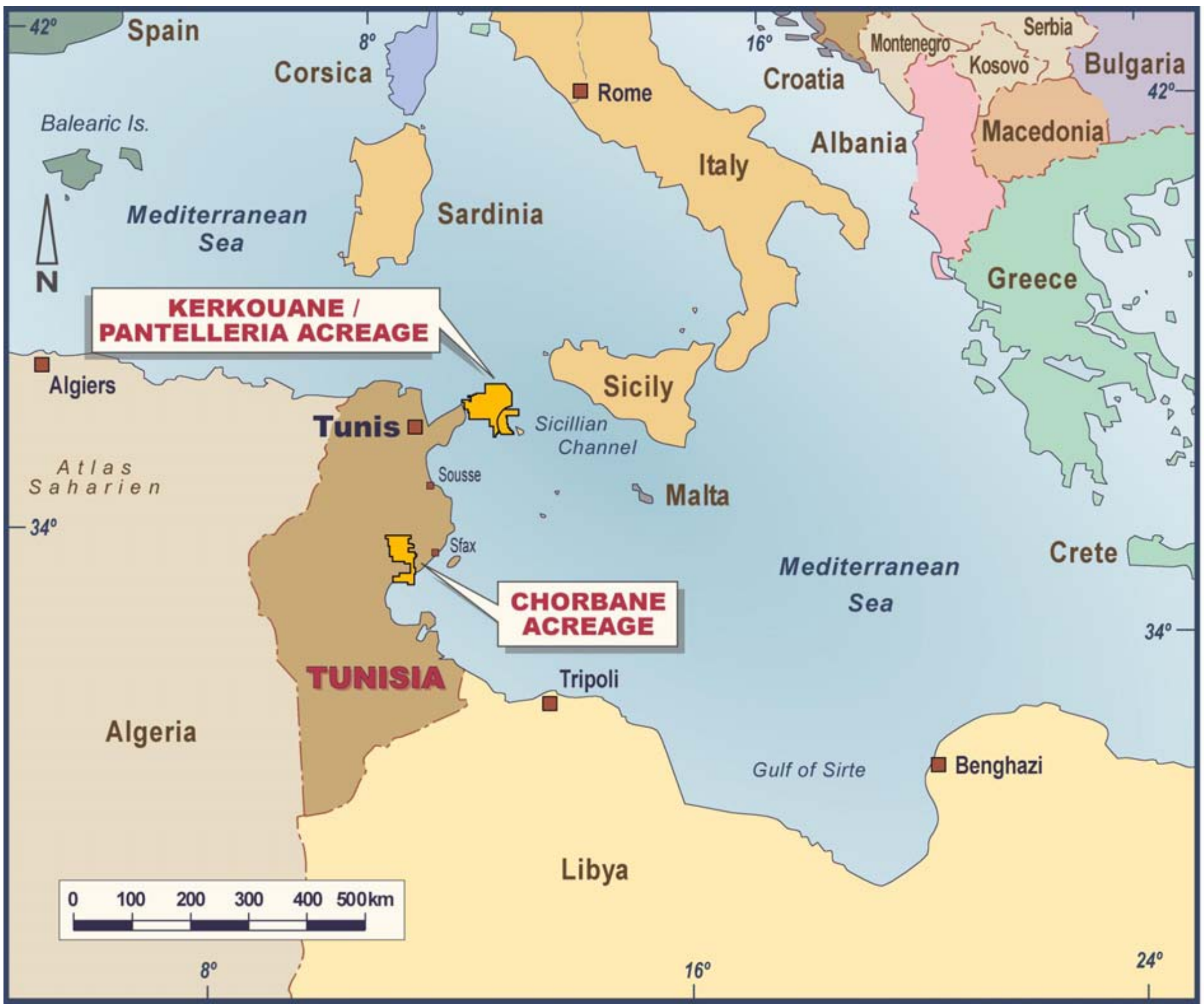

Figure 1: XState Project Location Map

Offshore Drilling 2010 - Lambouka:

Soon after re-listing XST and its fellow Joint Venture Participants drilled the Lambouka 1 well in 625 metres of water in the offshore Kerkouane acreage, close to the Italian border.

Drilling of the Lambouka 1 well to 2786 metres was completed in September 2010, and the well suspended for future use. The Lambouka-1 well is interpreted to have discovered a gross gas and condensate column of up to 230 metres in the Abiod Limestone, which is a significant producing reservoir in the Pelagian Basin. Shell tested gas and condensate from the Abiod Limestone at the Dougga 1 discovery well in the same acreage. There is potential for a further 250 metres up-dip on the Lambouka structure in Italian waters resulting in a potential gross gas / condensate column of up to 480 metres.

The high prospectivity of the XState acreage is strongly supported by the results from this well and the observation that this is the third discovery of gas and / or condensate in the Kerkouane and Pantelleria acreage from only 3 wells drilled.

The other discoveries are Dougga-1 and Kerkouane-1 by Shell, in 1981 and 1982 respectively, which were both plugged and abandoned as gas prices were low, and there was no infrastructure to deliver the gas to markets.

Those circumstances have since changed with high gas prices in Tunisian and European markets and substantial gas pipeline infrastructure now in place across the Pelagian Basin.

All of these discoveries are interpreted to contain quantities of associated condensate and LPG, which are high value products in today's markets, and consequently the three discoveries are now seen as foundation assets of XState to be appraised and evaluated for development.

Current Project Status- 2011

Onshore Drilling - Chorbane:

Preparations for the commencement of drilling operations on the Sidi Dhaher well are nearly completed. The operator is moving cautiously towards commencement of drilling operations, scheduled for March 2011. Site preparations have been completed and surface casing has been set. All statutory approvals for access and drilling have been received. Local community approvals are being obtained.

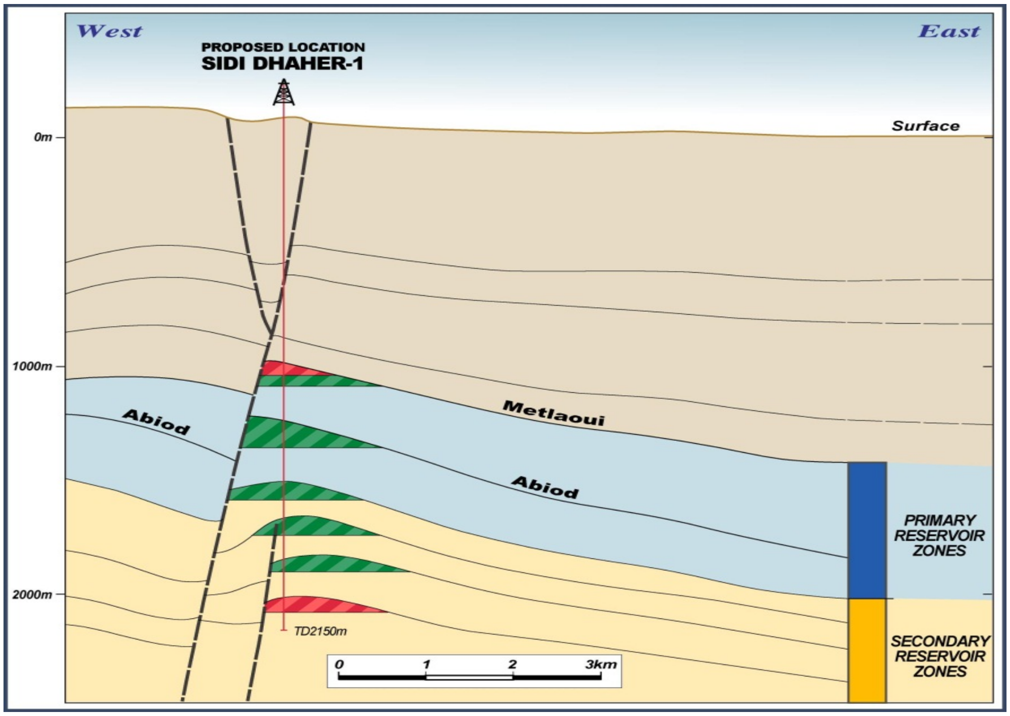

Figure 2: Schematic Sidi Dhaher Cross Section showing 6 potential reservoir zones

The Sidi Dhaher well will test up to 6 proven prospective zones in a large structural closure with the potential for over 300 million barrels of recoverable oil and associated gas in the two primary target reservoirs. The four deeper, secondary reservoirs present potential upside and will be assessed as part of the drilling program.

Figure 3: Challenger #37 Rig planned for Sidi Dhaher

Offshore Exploration Update - Kerkouane:

Renewal of the Kerkouane exploration licence was approved and three more years have been granted for exploration and appraisal activities until 22 February 2014. The exploration licence can at that time be renewed for a further three years until 22 February 2017. XState consequently has the opportunity to explore its deep inventory of attractive, mapped targets in this acreage over the next 6 years.

XState and its partners have undertaken to carry out the following work program in order to obtain the current renewal:

- Well test the Lambouka discovery; and
- Drill a further well to a minimum of 2500 metres.

The current licence area contains a number of large appraisal and exploration targets such as:

- Dougga gas/condensate field (covered by 3D seismic);
- Lambouka discovery (covered by 3D seismic);
- Dougga-NW prospect (an anticlinal closure covered by 3D seismic);
- Kerkouane gas discovery (covered by 2D seismic);
- Newly identified structural – stratigraphic prospects in the Pliocene section (partly covered by 3D, analogous to the very large discoveries recently made by ENI and Edison offshore Sicily); and
- Several very large structural prospects typical for the over thrust area in the northern part of the licence (covered by 2D seismic).

Dougga Development Review

A detailed independent review and resource assessment study by TRACS-AGR was initiated by the joint venture and is nearing completion. The objective of the study was to establish the technical and commercial feasibility of the Dougga discovery made by Shell in 1981. The Dougga 1 well tested gas and condensate from an Abiod Limestone reservoir which is the producing reservoir in many fields in the Pelagian Basin. A column of over 200 metres of gas saturated limestone reservoirs was seen in Dougga 1. Mapping of the 3D data acquired in March 2010, shows potential for an appraisal well to intersect the Dougga reservoir rocks some 300 metres higher than in Dougga 1, which implies a potential gross gas and condensate column of over 500 metres.

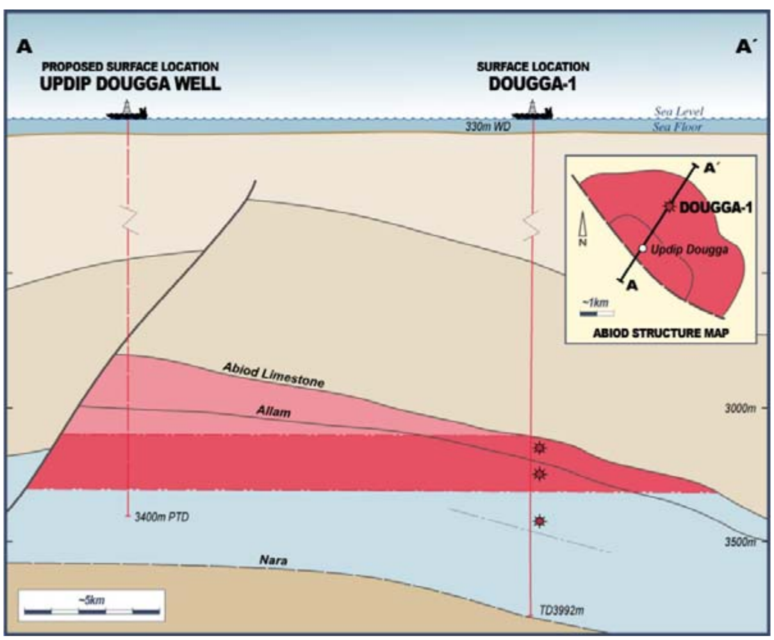

Figure 4: Schematic Dougga Cross Section with Top Abiod Structure Map

The Dougga discovery was not evaluated further by Shell at the time due to low gas prices and lack of pipeline connections to gas markets.

Since then gas and condensate prices are significantly higher, and there are now gas pipelines capable of delivering gas from Tunisia to the high priced European markets.

The TRACS AGR study is based on the revised interpretation of the Dougga discovery using the results of the 3D seismic acquired over Dougga in 2010.

A further well is anticipated to be necessary to enable the joint venture to book reserves at Dougga. This well is being planned for drilling in early 2012.

A resource assessment from this review was released to the ASX by the Operator in March 2011. The release advised that:

- Mean recoverable Contingent Resources are 41 million barrels of liquids (condensate and LPG) and 191 bcf of sales gas;
- Development of Dougga can be undertaken with proven, off the shelf technology; and
- There is upside potential in recovering gas from gas saturated, underlying Allam Carbonates.

XState is currently reviewing the results of this study.

Key objectives of the next well on the Dougga structure are:

- Confirm the Dougga structural interpretation;
- Confirm a hydrocarbon column in excess of 500 metres;
- Demonstrate commercial gas and condensate flow rates via well test;
- Confirm LPG and condensate yields; and
- Assess production enhancing reservoir fracturing on the crest of the structure

XState has an option to increase its equity to 20% in the Dougga discovery and all areas of the Kerkouane and Pantelleria acreage outside the Lambouka discovery structure area of some 150 km^2 where XState equity will remain at 10%.

Lambouka-1 Well

The well, which was the deepest-water exploration well ever drilled in the country, was drilled without significant safety or environmental incidents. This was a significant achievement for XST and the joint venture.

Studies of the information gained from the well (including log, gas samples and rock samples) are continuing with the aim of designing a re-entry and side track well to appraise the discovery.

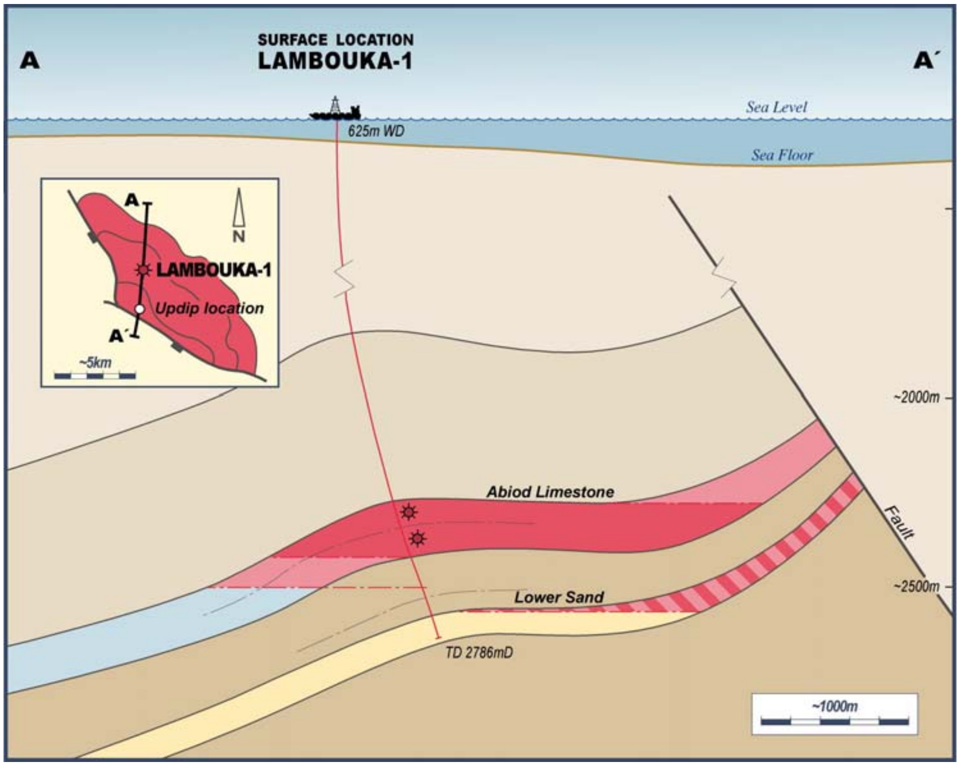

Figure 5: Schematic Lambouka Cross Section with Top Abiod Structure Map

Pantelleria Acreage

Pantelleria is in suspension, with the suspension able to be lifted at the request of the JV when drilling plans are ready for appraisal of Lambouka and appropriate drilling equipment is available to carry out those plans.

Competent Persons Statement

The technical information provided has been compiled by Mr Gary Jeffery, Managing Director of XState Resources Limited. He is a qualified geophysicist with over 38 years technical, commercial and management experience in exploration for, appraisal and development, and transportation of oil and gas and mineral and energy resources. Mr Jeffery has reviewed the results, procedures and data contained in this release.

DIRECTORS' REPORT

The Directors present their report together with the financial report of XState Resources Limited for the financial year ended 31 December 2010 and the auditor's report thereon.

1. DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

John Begg
Gary Jeffery
Ross Kestel
Brett Mitchell

David Whitby was appointed as a non-executive director and chairman in February 2011 and continues in office at the date of this report.

David McArthur was a director and company secretary from the beginning of the financial year until his resignation as a director on 8 July 2010. David continues in office as company secretary at the date of this report.

Rhod Grivas was a director from the beginning of the financial year until his resignation on 8 July 2010.

David Whitby

Non-Executive Chairman
Appointed: 11 February 2011

Experience and expertise
Mr Whitby, aged 55, has a Bachelor of Mechanical Engineering Degree from the Royal Military College, Canada. David has been Managing Director of Nido Petroleum and his wealth of international experience included appointments as Project Director of the West Java Gas Project with Conoco-Phillips in Jakarta, Vice President of Corporate Development for Gulf Indonesia, Jakarta, President of Gulf (Australia) Resources Limited in Perth and Vice President of Heavy Oil for Husky Oil in Canada. Prior to entering the oil and gas industry, David was an officer in the Canadian Armed Forces military engineering branch.

Other current directorships

Non-executive director	Nido Petroleum	6 February 2008 to current

Former directorships in the past three years
None

Special responsibilities
Member of the Nominations and Remuneration Committee

Interest in shares and options
185,000 ordinary shares

1. DIRECTORS (continued)

Gary Jeffery

Managing Director
Appointed: 8 July 2010

Experience and expertise
Mr Jeffery, aged 60, has over 37 years of experience in the oil, gas and mining and energy utilities industries working for a range of organisations in over 30 countries worldwide. He has broad project development, production operations and exploration management experience in resources and has demonstrated in his career the ability to find and commercialise oil and gas fields. Mr Jeffery has held management positions at AWE Limited, ARC Energy Limited, Tap Oil Limited, Griffin Energy Limited, Normandy Mining, Hadson Energy (now Apache), WAPET, Oxoco International and Texaco (now Chevron).

Mr Jeffery is a graduate member of the Australian Institute of Company Directors, a member of the Non-Exec Advisory Board of private company Velrada, a fellow of the Australian Institute of Energy, and a member of WA Energy Research Alliance (WAERA) Industry Advisory Group, Petroleum Club WA and SEAPEX.

Other current directorships
None

Former directorships in the past three years

Executive director	Arc Energy Limited	July 2007 to August 2008

Special responsibilities
Member of the Nominations and Remuneration Committee

Interest in shares and options
2,098,800 ordinary shares
2,966,400 options

1. DIRECTORS (continued)

John Begg

Non-Executive Director
Appointed: 8 July 2010

Experience and expertise
Mr Begg, aged 52, is a petroleum geologist with over 30 years experience in the upstream oil and gas industry and is a noted oil finder. He has been a member and leader of teams that have discovered large reserves of oil and gas leading to commercial developments in Australia, Asia and the USA. Mr Begg was Managing Director of Salinas Energy Limited (now Neon Energy Limited) now an established oil producer in California after commencing operations under his direction in 2006. He was also the founding Managing Director of Voyager Energy Limited which listed on the ASX in 2001 and after participating in two commercial oil discoveries, merged with Arc Energy Limited in 2005.

Other current directorships

Executive director	Solimar Energy Limited	Appointed November 2009

Former directorships in the past three years
None

Special responsibilities
Member of the Audit and Risk Management Committee
Chair of the Nominations and Remuneration Committee

Interest in shares and options
2,032,400 ordinary shares
2,350,000 options

1. DIRECTORS (continued)

Ross Kestel

Non-Executive Director
Appointed: 6 September 2006

Experience and expertise
Mr Kestel, aged 56, is a Chartered Accountant and was a director of the accounting practice Nissen Kestel Harford from July 1980 to April 2010. 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 a member of the Australian Institute of Company Directors.

Other current directorships

Non-executive director	Jabiru Metals Limited	Appointed August 2003
Non-executive director	VDM Group Limited	Appointed August 2005
Non-executive director	Resource Star Limited	Appointed August 2006
Non-executive director	Jatoil Financial Services Limited	Appointed September 2007
Non-executive director	Regis Resources Limited	Appointed July 2009

Former directorships in the past three years

Non-executive director	Equigold NL	April 2005 to June 2008
Non-executive director	Dioro Exploration NL	April 2008 to 16 February 2010
Non-executive director	Blackcrest Resources Limited	Appointed June 2006

Special responsibilities
Chair of the Audit and Risk Management Committee
Member of the Nominations and Remuneration Committee

Interest in shares and options
None

1. DIRECTORS (continued)

Brett Mitchell

Non-Executive Director
Appointed: 27 August 2009

Experience and expertise
Mr Mitchell, aged 39, has worked for both private and publicly listed entities for the past 18 years as a corporate finance executive. Mr Mitchell holds a Bachelor of Economics degree from the University of Western Australia and has specific experience in the financial markets and resources sectors and is a member of the Australian Institute of Company Directors (ACID).

Other current directorships

Executive director and company secretary	Transerv Energy Limited	Appointed July 2006
Non-executive director	Quest Petroleum NL	Appointed May 2007
Executive director and company secretary	Wildhorse Energy Limited	Appointed April 2009

Former directorships in the past three years

Executive director	Energy Ventures Limited	September 2004 to May 2009
Non-executive director	Newland Resources Limited	October 2009 to November 2010

Special responsibilities
Member of the Audit and Risk Management Committee
Member of the Nominations and Remuneration Committee

Interest in shares and options
494,713 ordinary shares
247,357 options

1. DIRECTORS (continued)

David McArthur

Executive Director and Company Secretary
Appointed: 6 September 2006
Resigned: 8 July 2010 (Executive director)

Experience and expertise
Mr McArthur, aged 53, 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 28 years.

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

Other current directorships

Executive director and company secretary	Lodestar Minerals Limited	Appointed August 2007

Former directorships in the past three years

Executive director and company secretary	Dioro Explorlation NL	1991 to January 2009
Executive director	Aqua Carotene Limited	January 2008 to May 2008

Special responsibilities
Company secretary

Interest in shares and options
1,261,562 ordinary shares (at date of resignation)
635,781 options (at date of resignation)

1. DIRECTORS (continued)

Rhoderick Grivas

Non-Executive Chairman
Appointed: 29 March 2007
Resigned: 8 July 2010

Experience and expertise
Mr Grivas, aged 44, 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 and worked at Gilt-Edged Mining NL prior to its takeover by Goldfields Limited (now Barrick), as the Kundana exploration manager during the discovery by Gilt-Edged Mining of a million ounce gold resource, located directly along strike from Dioro Exploration NL's Frog's Leg deposit. Mr Grivas was also Managing Director of Dioro prior to the company being taken over by Avoca Resources Limited.

Other current directorships

Non-executive chairman	Lodestar Minerals Limited	13 August 2007 to current
Non-executive chairman	Canyon Resources Limited	11 December 2009 to current
Executive director	Southern Crown Resources Limited	30 April 2010 to current
Non-executive director	Coventry Resources Limited	2 August 2010 to current

Former directorships in the past three years

Executive director	Dioro Explorlation NL	2002 to 29 January 2010

Special responsibilities
None

Interest in shares and options
50,000 ordinary shares (at date of resignation)
358,334 options (at date of resignation)

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

2. COMPANY SECRETARY

David McArthur is a chartered accountant and was appointed to the position of company secretary on 29 October 1999. Mr McArthur has 29 years experience in the corporate management of publicly listed companies.

3. DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 31 December 2010, and the numbers of meetings attended by each director were:

Director	Full meetings of directors		Meetings of audit and risk management committee		Meetings of remuneration and nominations committee	
	No. of meetings attended	No. of meetings held whilst a director	No. of meetings attended	No. of meetings held whilst a director	No. of meetings attended	No. of meetings held whilst a director
David Whitby	-	-	-	-	-	-
John Begg	8	8	1	1	-	-
Gary Jeffery	8	8	1	1	-	-
Ross Kestel	14	14	1	1	-	-
Brett Mitchell	14	14	1	1	-	-
David McArthur	6	6	1	1	-	-
Rhod Grivas	6	6	-	-	-	-

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 and senior executives for the Company and the Group including the five most highly remunerated Company and Group executives.

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

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

To give effect to this policy the Group 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, 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 (which is calculated on a total cost basis and includes any fringe benefits tax charges related to employee benefits including motor vehicles), 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.

Short-term incentive
Directors may receive short-term incentives for the successful implementation of board approved projects.

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

The Board approved a success bonus pool, which will be available for a 2 year period, and will only be payable on the discovery of a commercially viable oil / gas reserve.

Service contracts
On 20 July 2010 an employment agreement was entered into with Mr Jeffery, whereby Mr Jeffery is paid a total remuneration package of $200,000 per annum.

On 26 October 2007 an employment agreement, for a 3 year term, was entered into with Mr McArthur which was subsequently amended on 21 April 2008 to reflect market rates for the role and the scope of the business. The agreement had 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. Mr McArthur resigned as Executive Director on 8 July 2010.

4. REMUNERATION REPORT – AUDITED (continued)

Principles of Compensation (continued)

Service contracts (continued)

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 $84,000 per annum.

Executive and non executive directors

Non executive directors may receive performance related compensation. Directors' fees cover all main board activities and include statutory superannuation.

Presently, Messrs Begg and Mitchell receive non-executive directors' fees of $45,000 per annum. Mr Kestel receives non-executive directors' fees of $55,000 per annum, recognising his role as Chairman of the Audit and Risk Management Committee. Mr Whitby receives total remuneration of $84,000 per annum.

Mr Jeffery's directors fees are included as part of his service contract.

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 and key management personnel of the Company and the Group are shown below:

Name		Short-term employee benefits				Post employment benefits	Share based payments		
		Cash salary and fees	Cash bonus	Non-monetary	Total	Super-annuation	Options	Total	Options as % of remun-eration
		$	$	$	$	$	$	$	%
David Whitby ***	2010	-	-	-	-	-	-	-	-
	2009	-	-	-	-	-	-	-	-
John Begg *	2010	34,645	-	2,414	37,059	-	-	37,059	-
	2009	-	-	-	-	-	-	-	-
Gary Jeffery *	2010	96,237	-	2,414	98,651	-	-	98,651	-
	2009	-	-	-	-	-	-	-	-
Ross Kestel	2010	53,484	-	2,884	56,368	1,514	-	57,882	-
	2009	54,996	-	5,359	60,355	-	-	60,355	-
Brett Mitchell	2010	57,000	26,000	2,884	85,884	-	-	85,884	-
	2009	15,000	-	1,850	16,850	-	-	16,850	-
David McArthur **	2010	65,650	-	3,908	69,558	5,908	-	75,466	-
	2009	79,245	-	5,359	84,604	7,132	-	91,736	-
Rhod Grivas **	2010	23,471	-	1,493	24,964	2,112	-	27,076	-
	2009	45,006	-	5,360	50,366	4,050	6,061	60,477	10%
Totals	**2010**	**330,487**	**26,000**	**15,997**	**372,484**	**9,534**	**-**	**382,018**	
	2009	**194,247**	**-**	**17,928**	**212,175**	**11,182**	**6,061**	**229,418**	

* Appointed 8 July 2010 ** Resigned 8 July 2010 *** Appointed 11 February 2011

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 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 John Begg are paid to Rock Doc Pty Ltd, a company associated with Mr Begg;

e) directors fees for Mr Gary Jeffery are paid to Dungay Resources Pty Ltd, a company associated with Mr Jeffery;

f) directors fees for Mr Ross Kestel for the period to 31 August 2010 were paid to Nissen Kestel Harford, a company associated with Mr Kestel;

g) directors fees for Mr Brett Mitchell are paid to Sibella Capital Pty Ltd, a company associated with Mr Mitchell; and

h) the directors of the Company may receive performance related remuneration.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration		At risk - STI *		At risk - LTI **	
	2010	2009	2010	2009	2010	2009
David Whitby	-	-	-	-	-	-
John Begg	100%	100%	-	-	-	-
Gary Jeffery	100%	100%	-	-	-	-
Ross Kestel	100%	100%	-	-	-	-
Brett Mitchell	70%	100%	30%	-	-	-
David McArthur	100%	100%	-	-	-	-
Rhod Grivas	100%	90%	-	-	-	10%

* STI – short-term incentives
** LTI – long term incentives

4. REMUNERATION REPORT – AUDITED (continued)

Directors' remuneration – audited (continued)

Details of performance related remuneration - audited

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each director of the Company, each of the five named Company executives and relevant Group executives and other key management personnel are detailed below.

	Short-term incentive bonus		
	$ (A)	% vested in year	% forfeited in year (B)
David Whitby	-	-	-
John Begg	-	-	-
Gary Jeffery	-	-	-
Ross Kestel	-	-	-
Brett Mitchell	26,000	100%	-
David McArthur	-	-	-
Rhod Grivas	-	-	-

(A) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2010 financial year.

(B) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

4. REMUNERATION REPORT – AUDITED (continued)

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
No options have been granted as compensation during or since the end of the financial year.

No options were forfeited during the reporting period.

No options were vested during the reporting period.

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.

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 options and rights over equity instruments granted as compensation- audited
Details of vesting profiles of the options granted as remuneration to each key management person of the Group and each of the five named Company executives are detailed below.

	Options granted Number	Options granted Date	% vested in year (A)	% forfeited in year (B)	Financial years in which grant vests
Non-executive director					
Rhod Grivas	100,000	30-May-07	-	-	2007
	116,667	30-May-07	-	-	2008
	116,667	30-May-07	-	-	2009

(A) The amount vested in the year represents the expense recognised in accordance with the accounting standards;

(B) The % forfeited in the year represents the reduction from the maximum number of options available to vest due to the highest level performance criteria not being achieved.

Analysis of movements in options- audited
There was no movement during the reporting period of options over ordinary shares in the Company.

This is the end of the Remuneration Report – Audited.

5. PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial year were an interest in uranium exploration areas in Arizona, USA and oil and natural gas exploration and development.

On 8 July 2010, the Group acquired XState Resources Mediterranean Pty Ltd (formerly Bombora Energy Limited), a separate reportable segment (see note 6 to the financial statements). The Group was committed to assessing possible investment opportunities and due to this strategic decision there was a change in the principal activity of the Group.

6. OPERATING AND FINANCIAL REVIEW

Shareholder returns	**2010**	**2009**	**2008**	**2007**
Net loss attributable to equity holders	(1,141,560)	(372,643)	(1,975,847)	(815,346)
Basic EPS (cents)	(3.53)	(0.68)	(3.59)	(1.49)
Net tangible assets (NTA)	1,494,935	2,968,699	3,335,281	5,779,057
NTA Backing (cents)	2.21	5.39	6.10	10.50

Net loss amounts for 2007 to 2010 have been calculated in accordance with Australian Accounting Standards (AASBs).

Significant changes in the state of affairs

During the year the Company identified an investment opportunity through the acquisition of Bombora Energy Limited (Bombora), an oil and gas exploration company, which constituted a change in the nature and scale of activities of the Company from a uranium explorer.

The acquisition of Bombora was approved by shareholders at a general meeting held on 10 June 2010 and was formally completed on 8 July 2010.

7. DIVIDENDS

The directors recommend that no dividend be provided for the year ended 31 December 2010.

8. EVENTS SUBSEQUENT TO REPORTING DATE

On 11 February 2011, the Group announced the appointment of Mr David Whitby to the board of directors (refer section 1 – Directors).

On 25 February 2011 the Group issued 10 million fully paid ordinary shares at an issue price of 12.5 cents per share. All issued shares are fully paid and subject to shareholder approval at the next general meeting.

Other than the matters discussed above, there has not arisen, in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

9. LIKELY DEVELOPMENTS

The Group will continue exploration activities over its oil and gas interests commencing with drilling at Sidi Dhaher in March and Dougga during the latter part of 2011.

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:

Director	Ordinary shares	Options over ordinary shares
David Whitby	185,000	-
John Begg	2,032,400	2,350,000
Gary Jeffery	2,098,800	2,966,400
Ross Kestel	-	-
Brett Mitchell	494,713	247,357

11. SHARE OPTIONS

Options granted to directors of the Company

During or since the end of the financial year, the Company has not granted options over unissued ordinary shares in the Company.

Unissued shares under options

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

Expiry date	Exercise cents	Number of shares
30-Apr-12	150	100,000
30-Apr-12	195	116,667
30-Apr-12	225	116,667
21-Jan-13	24	66,667
30-Jun-13	24	48,438,061
		48,838,062

All options expire on the earlier of their expiry date or termination of the employee's employment (if applicable).

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.

12. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, XState Resources Limited paid a premium of $14,973 (excluding GST) to insure the Directors and Secretary of the Company and the current directors of its controlled entity.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against officers in their capacity of the entity and other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

The Group has agreed to indemnify each of the directors, the company secretary of the Company and the current directors of its controlled entity, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

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

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:

	2010 $	2009 $
Audit services:		
Auditors of the Company:		
Audit and review of financial reports (KPMG Australia)	56,259	58,365
	56,259	58,365
Services other than statutory audit:		
Other assurance services		
Investigating accountants report	19,477	-
Other services		
Taxation compliance services (KPMG Australia)	6,500	8,000
Taxation compliance services (KPMG Australia) *	6,500	-
	32,477	8,000

* Re: acquisition of XState Mediterranean Pty Ltd (formerly Bombora Energy Limited)

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 2010.

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

GARY JEFFERY

Director

Dated at Perth, Western Australia this 24th day of March 2011.

KPMG

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 year ended 31 December 2010 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

Graham Hogg
Partner

Perth

24 March 2011

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.

Board composition

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 comprises a non-executive Chairman, one executive director, two non-executive directors and one non-executive independent director. Details of the directors are set out in the Directors' Report.

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

Retirement and re-election of directors

The Constitution of the Company requires one third of directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board 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.

BOARD OF DIRECTORS (continued)

Independence of directors

The Board has reviewed the position and association of each of the five directors in office at the date of this report and considers that one director is independent. In considering whether a director is independent, the Board has regard to the independence criteria in ASX Corporate Governance Principles and Recommendations Principle 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.

The Board considers that Mr Ross Kestel meet the criteria in Principle 2. He has no material business or contractual relationship with the Company, other than as director, and no conflicts of interest which could interfere with the exercise of independent judgement. Accordingly, he is considered to be independent.

Independent professional advice

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

Board Performance Review

The performance of all directors is assessed through review by the Board as a whole of a director's attendance at and involvement in Board meetings, his performance and other matters identified by the Board or other directors. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a director's performance.

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

Conflict of Interest

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

DIRECTOR REMUNERATION

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

AUDIT AND RISK MANAGEMENT COMMITTEE

The role of the Audit and risk management committee is documented in a Charter which is approved by the Board of Directors. In accordance with this charter, all members must be non-executive directors. The Chairperson may not be the Chairperson of the board. The role of the committee is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group.

It also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report.

The members of the Audit and risk management committee for the Company at the date of this report were:

- Mr Ross Kestel – non-executive director (Chairman of Audit and Risk Management Committee);
- Mr John Begg – non-executive director; and
- Mr Brett Mitchell – non-executive director.

The external auditors and the managing director are invited to audit committee meetings at the discretion of the committee. The committee met once during the year and committee members' attendance record is disclosed in the table of directors' meetings.

The external auditor met with the audit committee and the board of directors once during the year.

The responsibilities of the audit and risk management committee include:

- to review the financial report and other financial information distributed externally;
- to monitor corporate risk assessment processes;
- to review any new accounting policies to ensuring compliance with Australian Accounting Standards and generally accepted accounting principles;
- to review audit reports ensuring that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- to review the nomination and performance of the auditor;
- to liaise with the external auditors ensuring that the annual and half-year statutory audits are conducted in an effective manner;
- to monitor the establishment of an appropriate internal control framework and consider enhancements;
- to monitor the establishment of appropriate ethical standards;
- to monitor the procedures in place ensuring compliance with the Corporations Act 2001, the Australian Stock Exchange Listing Rules and all other regulatory requirements;
- to address any matters outstanding with auditors, the Australian Taxation Office, the Australian Securities and Investments Commission, the Australian Stock Exchange and other financial institutions; and
- to improve the quality of the accounting function.

The Audit and risk management committee reviews the performance of the external auditors on an annual basis and meets with them during the year.

REMUNERATION AND NOMINATION COMMITTEE

The remuneration and nomination committee consists of the following directors:

- Mr John Begg – non-executive director (Chairman of Remuneration and Nomination Committee);
- Mr David Whitby – non-executive Chairman;
- Mr Ross Kestel – independent non-executive director;
- Mr Brett Mitchell – non-executive director; and
- Mr Gary Jeffery – managing director.

Details of directors' attendance at remuneration and nomination committee meetings are set out in the directors' report.

The remuneration and nomination committee operates in accordance with its charter. The main responsibilities of the committee are:

- to review the size and composition of the board;
- to review and advise the board on the range of skills available on the board and appropriate balance of skills for future board membership;
- to review and consider succession planning for the managing director, the chairman and other directors;
- to develop criteria and procedures for the identification of candidates for appointment as directors and apply the criteria and procedures to identify prospective candidates for appointment as a director and make recommendations to the board;
- to make recommendations to the board regarding any directors who should not continue in office;
- to nominate for approval by the board external experts;
- to determine remuneration policies and remuneration of directors;
- to determine the Company recruitment, retention and termination policies and procedures for senior management;
- to determine and review incentive schemes;
- to determine and review superannuation arrangements of the Company; and
- to determine and review professional indemnity and liability insurance for directors.

MANAGING BUSINESS RISK

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

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

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

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

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

Internal controls

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

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

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 2010.

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.

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.

COMMUNICATION WITH SHAREHOLDERS (continued)

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 NOT FOLLOWED – "IF NOT, WHY NOT" APPROACH

Pursuant to the ASX Listing Rule 4.10.3, 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 and Company Secretary, there are currently no other senior executives.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Notes	2010 $	2009 $
Assets			
Cash and cash equivalents	17a	1,416,717	3,021,991
Trade and other receivables / prepayments	16	129,575	25,147
Total current assets		1,546,292	3,047,138
Exploration and evaluation expenditure	14	7,245,018	-
Property, plant and equipment	13	30,194	-
Trade and other receivables	16	3,333	-
Total non-current assets		7,278,545	-
Total assets		8,824,837	3,047,138
Liabilities			
Trade and other payables	22	82,450	77,151
Employee benefits	20	2,435	1,288
Total current liabilities		84,885	78,439
Total liabilities		84,885	78,439
Net assets		8,739,952	2,968,699
Equity			
Share capital	18	38,517,929	31,884,265
Reserves		(70,803)	(349,952)
Retained earnings		(29,707,174)	(28,565,614)
Total equity attributable to equity holders of the company		8,739,952	2,968,699

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 $	2009 $
Continuing operations			
Other income	7	1,500	289
Administrative expenses	8, 9	(585,976)	(258,917)
Other expenses	10	(308,015)	(169,964)
Results from operating activities		(892,491)	(428,592)
Finance income	11	66,803	84,763
Finance expenses	11	(315,872)	(28,814)
Net finance (expense) / income		(249,069)	55,949
Loss before income tax		(1,141,560)	(372,643)
Income tax expense	12	-	-
Loss from continuing operations		(1,141,560)	(372,643)
Loss for the period		(1,141,560)	(372,643)
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive loss for the period		(1,141,560)	(372,643)
Loss attributable to owners of the Company		(1,141,560)	(372,643)
Total comprehensive loss attributable to owners of the Company		(1,141,560)	(372,643)
Loss per share			
Basic and diluted (cents per share)	19	(3.53)	(2.03)

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Attributable to equity holders of the Company				
		Share capital $	Translation reserve $	Equity-based benefits reserve $	Accumulated losses $	Total $
Balance at 1 January 2010		31,884,265	(486,352)	136,400	(28,565,614)	2,968,699
Total comprehensive expense for the year						
Loss for the year		-	-	-	(1,141,560)	(1,141,560)
Total other comprehensive expense		-	-	-	-	-
Total comprehensive expense for the period		-	-	-	(1,141,560)	(1,141,560)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares		6,833,626	-	-	-	6,833,626
Issue of options		241,799	-	-	-	241,799
Capital raising costs		(441,761)	-	-	-	(441,761)
Share-based payment transactions		-	-	279,149	-	279,149
Total contributions by and distributions to owners		6,633,664	-	279,149	-	6,912,813
Total changes in ownership interests in subsidiaries		-	-	-	-	-
Total transactions with owners		6,633,664	-	279,149	-	6,912,813
Balance at 31 December 2010		38,517,929	(486,352)	415,549	(29,707,174)	8,739,952

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

		Attributable to equity holders of the Company				
	Note	Share capital $	Translation reserve $	Equity-based benefits reserve $	Accumulated losses $	Total $
Balance at 1 January 2009		31,884,265	(486,352)	130,339	(28,192,971)	3,335,281
Total comprehensive expense for the period						
Loss for the year		-	-	-	(372,643)	(372,643)
Total other comprehensive expense		-	-	-	-	-
Total comprehensive expense for the year		-	-	-	(372,643)	(372,643)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share-based payment transactions	21	-	-	6,061	-	6,061
Total contributions by and distributions to owners		-	-	6,061	-	6,061
Total changes in ownership interests in subsidiaries		-	-	-	-	-
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.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 $	2009 $
Cash flows from operating activities			
Cash paid to suppliers and employees		(839,062)	(382,163)
Interest paid		-	-
Income taxes paid		-	-
Net cash used in operating activities	17(b)	(839,062)	(382,163)
Cash flows from investing activities			
Interest received		71,568	85,078
Payments for property, plant and equipment		(31,252)	-
Payments for exploration, evaluation and development		(4,496,069)	-
Acquisition of subsidiary, net of cash		(30,004)	-
Net cash from / (used in) investing activities		(4,485,757)	85,078
Cash flows from financing activities			
Repayment of borrowings		-	-
Payment of transaction costs related to loans		(39,009)	-
Loans from shareholders		-	-
Proceeds from issue of shares and options		4,068,344	-
Capital raising costs		(291,680)	-
Net cash from financing activities		3,737,655	-
Net decrease in cash and cash equivalents		(1,587,164)	(297,085)
Cash and cash equivalents at 1 January		3,021,991	3,347,890
Effect of exchange rate fluctuations on cash held		(18,110)	(28,814)
Cash and cash equivalents at 31 December	17(a)	1,416,717	3,021,991

The notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

1. REPORTING ENTITY

XState Resources Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 41 Stirling Highway, Nedlands, Western Australia, 6009. The consolidated financial statements of the Company as at and for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group Entities"). The Group primarily is involved in the exploration of oil and gas in the Mediterranean and Tunisia.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS's) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of the Directors on 24 March 2011.

(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) Going concern

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

On 8 July 2010, the Group acquired XState Mediterranean Pty Ltd (formerly Bombora Energy Ltd), an oil and gas exploration company which has farm-in commitments and ongoing exploration and evaluation activities planned. The ability of the Group to continue funding its oil and gas exploration activities and retain its rights in the corresponding farm-in arrangements, is dependent on the Group securing further working capital by the issue of additional equity or financing facilities. Subsequent to year-end, the Company has raised capital of $1,250,000 (refer note 29). The Company has a history of successfully raising capital to fund its exploration activities. In addition, the company has the capacity to delay or cancel a number of expenses that are discretionary in nature, including administrative costs and exploration programs that are not contractually binding.

The directors have reviewed the business outlook and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Group will achieve the matters set out above.

(d) Functional and presentation currency

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

2. BASIS OF PREPARATION (continued)

(e) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs 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:

Critical judgements

(i) Going concern

A key assumption underlying the preparation of the financial statements is that the entity will continue as a going concern. An entity is a going concern when it is considered to be able to pay its debts as and when they are due, and to continue in operation without any intention or necessity to liquidate or otherwise wind up its operations. A significant amount of judgement has been required in assessing whether the entity is a going concern as set out in note 2(c).

Estimates and assumptions

(ii) Exploration and evaluation assets

Determining the recoverability of exploration and evaluation expenditure capitalised in accordance with the Group's accounting policy (refer note 3(e)), requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively sale, of the respective areas of interest will be achieved. Critical to this assessment is estimates and assumptions as to the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. Changes in these estimates and assumptions as new information about the presence or recoverability of an ore reserve becomes available, may impact the assessment of the recoverable amount of exploration and evaluation assets. If, after having capitalised the expenditure under accounting policy 3(e), a judgment is made that recovery of the expenditure is unlikely, an impairment loss is recorded in the income statement in accordance with accounting policy 3(f). The carrying amounts of exploration and evaluation assets are set out in note 14.

(iii) Recognition of tax losses

In accordance with the Group's accounting policies for deferred taxes (refer note 3(k), a deferred tax asset is recognised for unused tax losses only if it is probably that future taxable profits will be available to utilise those losses. Determination of future taxable profits requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively judgements about commodity prices, exchange rates, future capital requirements, future operational performance and the timing of estimated cash flows. Changes in these estimates and assumptions could impact on the amount and probability of estimated taxable profits and accordingly the recoverability of deferred tax assets. The Group currently does not recognise deferred tax assets.

(iv) Share-based payments

As set out in Note 21, 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.

2. BASIS OF PREPARATION (continued)

(f) Change in accounting policies

Presentation of transactions recognised in other comprehensive income
From 1 January 2010, the Group has applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2010-4 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Project.* The change in accounting policy only relates to disclosures and had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and allow the Group to disclose transactions recognised in other comprehensive income in note 18 to the financial statements.

Removal of parent entity financial statements
The Group has applied amendments to the Corporations Act 2001 that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in note 28.

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 year.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency (continued)

(i) Foreign currency transactions (continued)

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. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(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 in other comprehensive income, and presented in the foreign currency translation reserve in equity (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is reclassified to profit or loss as part of the gain or loss on disposal.

(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

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(j).

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, 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 issue 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) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” in profit or loss.

(ii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

The estimated useful lives for the current and comparative periods are as follows:

	Method	2010	2009
Office equipment	Straight line	20%	-
Computer equipment	Straight line	20%	-

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) Exploration and evaluation

Exploration for and evaluation of mineral resources is the search for mineral resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. Accordingly, exploration and evaluation expenditures are those expenditures incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Accounting for exploration and evaluation expenditures is assessed separately for each ‘area of interest’. An ‘area of interest’ is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Expenditure incurred on activities that precede exploration and evaluation of mineral resources, including all expenditure incurred prior to securing legal rights to explore an area, is expensed as incurred. For each area of interest the expenditure is recognised as an exploration and evaluation asset where the following conditions are satisfied:

(a) The rights to tenure of the area of interest are current; and

(b) At least one of the following conditions is also met:

   (i) The expenditure is expected to be recouped through successful development and commercial exploitation of an area of interest, or alternatively by its sale; and

   (ii) Exploration and evaluation activities in the area of interest have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of ‘economically recoverable reserves’ and active and significant operations in, or in relation to, the area of interest are continuing. Economically recoverable reserves are the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable conditions.

Exploration and evaluation assets include:

- Acquisition of rights to explore;
- Topographical, geological, geochemical and geophysical studies;
- Exploratory drilling, trenching and sampling; and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting the mineral resource.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Exploration and evaluation (continued)

General and administrative costs are allocated to, and included in, the cost of exploration and evaluation assets, only to the extent that those costs can be related directly to the operational activities in the area of interest to which the exploration and evaluation assets relate. In all other instances, these costs are expensed as incurred.

Exploration and evaluation assets are classified as tangible or intangible according to the nature of the assets. As the assets are not yet ready for use, they are not depreciated. Assets that are classified as tangible assets include:

- Piping and pumps;
- Tanks; and
- Exploration vehicles and drilling equipment.

Assets that are classified as intangible include:

- Drilling rights;
- Acquired rights to explore;
- Exploratory drilling costs; and
- Trenching and sampling costs.

Borrowing costs incurred in connection with the financing of exploration and evaluation activities are expensed as incurred.

Exploration and evaluation assets are transferred to Development Assets once technical feasibility and commercial viability of an area of interest is demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, prior to being classified.

The carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective area of interest.

Impairment testing of exploration and evaluation assets
Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- The term of exploration license in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area are not budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specified area; or
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development by sale.

Where a potential impairment is indicated, an assessment is performed for each CGU which is no larger than the area of interest. The Group performs impairment testing in accordance with accounting policy 3(f)(ii).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) 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 any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more loss event has had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity 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, or 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.

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

(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. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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 is 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.

(h) 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.

(i) Revenue

Rental income

Rental income from office leases is recognised on a straight line basis over the term of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) 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 interest expense on borrowings, share-based payments and 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.

(k) 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.

(l) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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.

(n) Segment reporting

Determination and presentation of operating segments

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.

(o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS9 *Financial Instruments*, which becomes mandatory for the Group's 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

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 stock options is based on market value, if available. If market value is not available, then the fair value of 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.

5. FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

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

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

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

5. FINANCIAL RISK MANAGEMENT (continued)

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 in the Mediterranean Sea. 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.

Liquidity risk

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

The Group ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Refer to Note 2(c) for basis of going concern.

Market risk

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

Currency risk

Following the acquisition of XState Mediterranean Pty Ltd (formerly Bombora Energy Limited), the Group is exposed to currency risks on exploration cash calls that are 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 will primarily be denominated are AUD and USD.

Interest rate risk

The Group only has interest rate risk relating to its funds on deposit with banking institutions. Accordingly, the Group does not hedge its interest rate risk exposure (see note 23(d) for sensitivity analysis).

5. FINANCIAL RISK MANAGEMENT (continued)

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.

6. OPERATING SEGMENTS

The Group has two reportable segments, being oil and gas exploration and evaluation in the Mediterranean and uranium exploration in Arizona, USA.

The basis of segmentation and measurement changed following the acquisition of XState Mediterranean Pty Ltd (formerly Bombora Energy Limited) with the additional reporting segment for oil and gas exploration.

In February 2009, the unincorporated joint venture with Liberty Star was cancelled and the balance of funds returned to XState. This cancellation resulted in an intercompany loan impairment reported in the 2009 financial statements and no uranium operating segment expenditure / assets held at and for the period ended 31 December 2010. The Group is in the process of dissolving the subsidiary company XState Arizona Inc. On completion of the subsidiaries dissolution, date yet unknown, the Group will no longer have a uranium operating segment.

Comparative segment information has been represented in conformity with the requirement of AASB 8 *Operating Segments.*

6. OPERATING SEGMENTS (continued)

Information about reportable segments

	Uranium		Oil and gas		Total	
For the year ended 31 December	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**	**$**	**$**
Reportable segment loss before income tax	-	(490)	-	-	-	(490)
Reportable segment assets	-	-	7,245,018		7,245,018	-
Other material items:						
Impairment loss on exploration and evaluation	-	(490)	-	-	-	(490)
Capital expenditure - acquisition	-	-	1,897,282	-	1,897,282	-
Capital expenditure - additions	-	-	5,347,736	-	5,347,736	-

6. OPERATING SEGMENTS (continued)

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

	2010 $	2009 $
Loss		
Total loss for reportable segments	-	(490)
Unallocated amounts: other corporate expenses	(892,491)	(428,102)
Finance expense (including foreign currency translation)	(315,872)	(28,814)
Finance income	66,803	84,763
Consolidated loss before income tax	(1,141,560)	(372,643)
Assets		
Total assets for reportable segments	7,245,018	-
Other assets	1,579,819	3,047,138
	8,824,837	3,047,138
Liabilities		
Total liabilities for reportable segments	(283)	-
Other liabilities	(84,602)	(78,439)
	(84,885)	(78,439)

	Reportable segment totals $	Adjustments $	Consolidated totals $
Other material items 2010			
Capital expenditure - acquisition	1,897,282	-	1,897,282
Capital expenditure - additions	5,347,736	-	5,347,736
Impairment of exploration and evaluation	-	-	-
Other material items 2009			
Capital expenditure - acquisition	-	-	-
Capital expenditure - additions	-	-	-
Impairment of exploration and evaluation	(490)	-	(490)

7. OTHER INCOME

	Notes	2010 $	2009 $
Office rent and amenities		1,500	-
Other		-	289
		1,500	289

8. PERSONNEL EXPENSES

Wages and salaries		20,913	-
Directors and executives remuneration		356,486	194,247
Contributions to defined contribution plans		11,417	11,182
Increase / (decrease) in liability for annual leave		2,084	(1,027)
Equity-settled share-based payment transactions		-	6,061
Other associated personnel expenses		16,038	17,928
		406,938	228,391

9. ADMINISTRATIVE EXPENSES

Personnel expenses	8	406,938	228,391
Advertising and publicity		33,200	4,598
Communication and information services		7,094	2,913
Motor vehicle expenses		1,225	-
Office administration		44,188	5,161
Bank charges		696	458
Share registry and statutory fees		92,635	17,396
		585,976	258,917

10. OTHER EXPENSES

	Notes	2010 $	2009 $
Professional fees		306,957	168,655
Depreciation and amortisation		1,058	-
Site restoration expenses		-	491
Other expenses		-	818
		308,015	169,964

11. FINANCE INCOME AND EXPENSE

Interest income on bank deposits		66,803	84,763
Finance income		66,803	84,763
Interest expense on financial liabilities measured at amortised cost		(9,759)	-
Share-based payments	18	(275,000)	-
Other borrowing costs		(29,250)	-
Net foreign exchange loss		(1,863)	(28,814)
Finance expense		(315,872)	(28,814)
Net finance (expense) / income recognised in profit or loss		(249,069)	55,949
The above finance income and expense include the following in respect of assets (liabilities) not at fair value through profit or loss:			
Total interest income on financial assets		66,803	84,763
Total interest expense on financial liabilities		(9,759)	-

12. INCOME TAX EXPENSE

	2010 $	2009 $
Current tax benefit		
Current period	(253,968)	(107,680)
	(253,968)	(107,680)
Deferred tax benefit		
Origination and reversal of temporary differences	253,968	107,680
Total income tax expense	-	-

Numerical reconciliation between tax expense and pre-tax accounting loss

Loss for the period	(1,141,560)	(372,643)
Total income tax expense	-	-
Loss excluding income tax	(1,141,560)	(372,643)
Income tax using the Company's domestic tax rate of 30% (2008: 30%)	(342,468)	(111,793)
Non-deductible expenses	87,191	1,818
Tax losses not brought to account	255,277	109,975
	-	-
Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	907,689	942,644
Potential tax benefit at 30% (2008: 30%)	272,307	282,793

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits of $272,307 (2009: $282,793) 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.

13. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings $	Computer equipment $	Total $
Gross carrying amount			
Balance at 1 January 2010	-	-	-
Additions	4,199	27,053	31,252
Balance at 31 December 2010	4,199	27,053	31,252
Depreciation and impairment losses			
Balance at 1 January 2010	-	-	-
Depreciation for the year	142	916	1,058
Balance at 31 December 2010	142	916	1,058
Carrying amounts			
Balance at 31 December 2009	-	-	-
Balance at 31 December 2010	4,057	26,137	30,194

14. EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

	Note	2010 $	2009 $
Costs carried forward in respect of areas of interest - Exploration phase		7,245,018	-
Opening balance		-	-
Acquisitions		1,897,282	-
Additions		5,347,736	
		7,245,018	-

Expenses relating to the acquisition of XState Mediterranean Pty Ltd (formerly Bombora Energy Limited) have been capitalised in line with Australian Accounting Standard AASB 116 *Acquisition of Assets.* $1,798,365.95 of the acquisition cost relates to the acquisition of the exploration assets through the issue of fully paid ordinary shares. The balance is administration and statutory expenditure relating to the acquisition of these assets. Refer to note 26 for details.

14. EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE (continued)

The farm-in agreement requires the company to contribute its share of the exploration activities in US dollars and, as a result, is subject to foreign currency exchange gains and losses.

Exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. The ultimate recovery of exploration and evaluation phase expenditure is primarily dependent upon the successful development and commercial exploitation, or alternatively, sale of the areas of interest.

15. DEFERRED TAX ASSETS AND LIABILITIES

(a) Unrecognised deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
	$	$	$	$	$	$
Property, plant and equipment	-	-	(468)	-	(468)	-
Trade and other receivables	-	-	(1,328)	(2,758)	(1,328)	(2,758)
Black hole deductible costs	3,561	14,167	-	-	3,561	14,167
Trade and other payables	10,200	7,200	-	-	10,200	7,200
Employee benefits	731	386	-	-	731	386
Carry forward tax losses	272,307	282,793	-	-	272,307	282,793
	286,799	304,546	(1,796)	(2,758)	285,003	301,788

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.

The 2009 carry forward tax losses of $282,793 are no longer available as the Group would no longer pass the continuity of ownership and same business activity tests following the Company's acquisition of XState Mediterranean Pty Ltd (formerly Bombora Energy Limited).

16. OTHER RECEIVABLES

	2010 $	2009 $
Bank interest income	4,428	9,193
Office rental income	1,500	-
Prepayments	68,336	10,117
Rental bond	3,333	-
GST and PAYG receivable	55,311	5,837
	132,908	25,147
Non-current	3,333	-
Current	129,575	25,147
	132,908	25,147

17. 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 23.

	2010 $	2009 $
Cash and cash equivalents in the statement of cash flows	1,416,717	3,021,991

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

(b) Reconciliation of cash flows from operating activities

		2010 $	2009 $
Cash flows from operating activities			
Loss for the period		(1,141,560)	(372,643)
Adjustments for:			
Net finance expense / (income)	11	247,206	(84,763)
Depreciation	13	1,058	-
Equity-settled share-based payment transactions		4,150	6,061
Annual leave expense	8	2,084	(1,027)
Net (gain) / loss on foreign exchange translations	11	1,863	28,814
		(885,199)	(423,558)
Change in other receivables	16	(48,899)	914
Change in trade and other payables	22	114,740	35,943
Change in prepayments	16	(18,766)	3,601
Change in provisions and employee benefits	20	(938)	937
Net cash used in operating activities		(839,062)	(382,163)

18. CAPITAL AND RESERVES

(a) Share capital and options

		Ordinary shares			
		Number		Amount	
		2010 shares	2009 shares	2010	2009
On issue at 1 January		**55,079,593**	**55,079,593**	**31,884,265**	**31,884,265**
01-Jan-10	A 1:3 consolidation of shares	(36,719,266)	-	-	-
08-Jul-10	Placement of 5 million 20 cent shares (plus 1:2 free attaching options as below)	5,000,000	-	1,000,000	-
08-Jul-10	Placement of 2.5 million 20 cent shares in lieu of convertible note (plus 1:2 free attaching options as below)	2,500,000	-	500,000	-
08-Jul-10	Issue of 11,660,000 20 cent shares in consideration of the acquisition of Bombora Energy Limited	11,660,000	-	2,332,000	-
05-Nov-10	Issue of 30,016,261 10 cent entitlements issue shares	30,016,261	-	3,001,626	-
	Capital raising costs	-	-	(441,761)	-
On issue at 31 December		**67,536,588**	**55,079,593**	**38,276,130**	**31,884,265**

18. CAPITAL AND RESERVES (continued)

(a) Share capital and options (continued)

		Options issued for cash			
		Number		Amount	
		2010 options	2009 option	2010 $	2009 $
On issue at 1 January		-	-	-	-
08-Jul-10	Issue of options in lieu of underwriting fee for share issue	15,000,000	-	150,000	-
08-Jul-10	Non-renouncable rights issue	9,179,932	-	91,799	-
On issue at 31 December		**24,179,932**	**-**	**241,799**	**-**

		Options issued through equity benefit reserve			
		Number		Amount	
		2010 options	2009 option	2010 $	2009 $
On issue at 1 January		**1,000,000**	**1,000,000**	**136,400**	**136,400**
21-Jan-10	Issue of 200,000 options in lieu of Nevada Geochemical Database	200,000	-	4,149	-
21-Jan-10	A 1:3 consolidation of options	(800,000)	-	-	-
08-Jul-10	Free-attaching options	3,750,000	-	-	-
05-Nov-10	Entitlements issue	15,008,130	-	-	-
30-Sep-10	Issue of options in consideration for shareholder loans *	5,500,000	-	275,000	-
On issue at 31 December		**24,658,130**	**1,000,000**	**415,549**	**136,400**

* These options were calculated at market value on the date the options were issued, being 30 September 2010.

18. CAPITAL AND RESERVES (continued)

(b) Issuance of ordinary shares

On 10 June 2010 the general meeting of shareholders approved the issuance of 11,660,000 ordinary shares at a market value of 20 cents per share (2009: nil) pursuant to the acquisition of XState Mediterranean Pty Ltd (formerly Bombora Energy Limited).

At the general meeting a 1:3 consolidation of shares was approved along with the placement of 5 million ordinary shares at a market value of 20 cents per share (2009: nil) with a 1:2 free attaching option (see note 21).

Additionally, 2.5 million ordinary shares at a market value of 20 cents per share (2009: nil) were issued in lieu of a $500,000 convertible note.

The fair value of the shares on 8 July 2010 (date of settlement) was 20 cents per share.

On 5 November 2010 an entitlements issue of 30,016,261 ordinary shares at a market value of 10 cents per share (2009: nil) raised $3,001,626. The fair value of the shares on the date of settlement was 16 cents per share.

All issued shares are fully paid.

(c) Ordinary shares

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 shares issues by the Company without exercising their options.

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

All issued shares are fully paid.

The Company has also issued share options (see note 21).

(d) 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.

19. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share at 31 December 2010 was based on the loss attributable to ordinary shareholders of $1,141,560 (2009: $372,643) and a weighted average number of ordinary shares outstanding of 32,339,086 (2009: 55,079,593) calculated as follows:

Loss attributable to ordinary shareholders

	2010 $	2009 $
Loss for the period	(1,141,560)	(372,643)

Weighted average number of ordinary shares (basic)

	2010 Number	2009 Number
Issued ordinary shares at 1 January	55,079,593	55,079,593
Effect of 1:3 reconstruction of share capital	(36,719,266)	-
Effect of shares issued during the period	13,978,759	-
	32,339,086	55,079,593

Diluted loss per share

The calculation of diluted loss per share at 31 December 2010 was based on the loss attributable to ordinary shareholders of $1,141,560 (2009: $372,643) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 32,339,086 (2009: 55,079,593) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2010 Number	2009 Number
Weighted average number of ordinary shares (basic)	32,339,086	55,079,593
Effect of share options on issue	-	-
	32,339,086	55,079,593

The weighted average number of ordinary shares, (basic and diluted), has been adjusted for the effects of the 1:3 share consolidation approved by shareholders on 10 June 2010, effective 8 July 2010.

20. EMPLOYEE BENEFITS

	2010 $	2009 $
Current		
Liability for annual leave	2,435	351
Liability for superannuation	-	937
	2,435	1,288

21. SHARE-BASED PAYMENT PLANS

(a) Description of the share-based payment arrangements

At 31 December 2010 the Group has the following share-based payment arrangements.

Equity-settled share option programme

An employee option plan has been established which enables the Group 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 Group. 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.

On 21 January 2010 the Group issued 66,667 options exercisable at 24 cents each, for no consideration, in lieu of consulting fees. The resultant expense of $4,150 is included as part of professional fees within other expenses.

On 8 July 2010:-

- The Company issued 15,000,000 options at 1 cent each to raise $150,000 in working capital (the options are exercisable at 24 cents on or before 30 June 2013);
- The Company issued 7,500,000 fully paid ordinary shares (and 3,750,000 attaching options for nil consideration, at 20 cents each with the same terms as the options referred to above), to raise $1.5 million in working capital;
- The Company issued 9,179,932 options at 1 cent each to raise $91,799 in working capital. The options were issued on the same terms as those referred to above;

On 30 September 2010 the Group issued 5,500,000 options exercisable at 24 cents, for no consideration, in lieu of borrowing costs. The resultant expense of $275,000 (based on market price of 5 cents per share) is included as part of finance expenses.

On 5 November 2010 an entitlements issue included the issuance of 15,008,130 free-attaching options.

The fair value of services received for share options granted is based on the fair value of options granted, measured using the Black-Scholes formula.

21. SHARE-BASED PAYMENT PLANS (continued)

(b) Terms and conditions of share-option programme

The terms and conditions relating to the grant of existing share options are as follows:

Tranche	Grant date	Number of instruments	Vesting conditions	Contractual life of options
1	30-May-2007	100,000	Vested upon granting	4.92 years
2	30-May-2007	116,667	10 months	4.92 years
3	30-May-2007	116,667	22 months	4.92 years
4	25-February-2010	66,667	Vested upon granting	2.91 years
		400,001		

The number of options granted, have been adjusted for the 1:3 share consolidation which took effect on 8 July 2010.

(c) Disclosure of share option programme

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

	Weighted average exercise price 2010	Number of options 2010	Weighted average exercise price 2009	Number of options 2009
Outstanding at 1 January	$1.92	333,334	$1.92	333,334
Forfeited during period	-	-	-	-
Exercised during the period	-	-	-	-
Granted during the period	$0.24	66,667	-	-
Outstanding at 31 December	$1.64	400,001	$1.92	333,334
Exercisable at 31 December	$1.64	400,001	$1.92	333,334

The options outstanding at 31 December 2010 have an exercise price in the range of 24 cents to $2.25 and a weighted average contractual life of 1.45 years (2009: 2.33 years).

No options were exercised or forfeited during the year (2009: no options granted, exercised or forfeited).

The number of options granted, have been adjusted for the 1:3 share consolidation which took effect on 8 July 2010.

21. SHARE-BASED PAYMENT PLANS (continued)

(d) Inputs for measurement of grant date fair values

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. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

Fair value of share options and assumptions	Tranche 1		Tranche 2		Tranche 3		Tranche 4	
Fair value at grant date	14.9	cents	13.5	cents	12.7	cents	2.1	cents
Share price	26.5	cents	26.5	cents	26.5	cents	15.0	cents
Exercise price	150	cents	195	cents	225	cents	24	cents
Expected volatility	80%		80%		80%		80%	
Option life	4.92	years	4.92	years	4.92	years	2.91	years
Vesting period	-	years	0.83	years	1.83	years	-	years
Risk free rate		6.14%		6.14%		6.14%		3.75%

(e) Employee expenses

	2010 $	2009 $
Share options granted / vested in 2009	-	6,061
Share options granted / vested in 2010	-	-
Total expense recognised as employee costs	-	6,061

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

All options remain unexercised at 31 December 2010.

22. TRADE AND OTHER PAYABLES

	2010 $	2009 $
Current		
Trade payables	20,452	20,811
Non-trade payables and accrued expenses	61,998	56,340
	82,450	77,151

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 23.

23. FINANCIAL INSTRUMENTS

(a) Credit risk

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

	Carrying amount 2010 $	2009 $
Other receivables	132,908	25,147
Cash and cash equivalents	1,416,717	3,021,991
	1,549,625	3,047,138

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:

	Carrying amount $	Contractual cash flows $	6 mths or less $
31 December 2010			
Non-derivative financial liabilities			
Trade and other payables	82,450	(82,450)	(82,450)
	82,450	(82,450)	(82,450)
31 December 2009			
Non-derivative financial liabilities			
Trade and other payables	77,151	(77,151)	(77,151)
	77,151	(77,151)	(77,151)

23. FINANCIAL INSTRUMENTS (continued)

(c) Foreign currency risk management

The Group's exposure to foreign currency risk was as follows:

	AUD	USD	AUD	USD
	31-December-2010		31-December-2009	
Cash and cash receivables	924,734	491,983	3,021,991	-
Net exposure	924,734	491,983	3,021,991	-

The following significant exchange rates applied during the year:

AUD	Average rate 2010	2009	Reporting date spot rate 2010	2009
US Dollar (USD)	0.8940	0.7126	1.0163	0.8931

(c) Foreign currency risk management (continued)

The Group is exposed to US dollars (USD). The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss where the Australian dollar strengthens against the respective currency.

	Impact on profit and loss and equity 2010	2009
If AUD strengthens by 10%		
USD	(44,726)	-
If AUD weakens by 10%		
USD	54,664	-

23. FINANCIAL INSTRUMENTS (continued)

(d) Interest rate risk

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

	Carrying amount 2010 $	2009 $
Variable rate instruments		
Financial assets	1,416,717	3,021,991
	1,416,717	3,021,991

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 2009.

	Profit or loss	
	100bp increase $	100bp decrease $
31 December 2010		
Variable rate instruments	14,165	(14,165)
Cash flow sensitivity	14,165	(14,165)
31 December 2009		
Variable rate instruments	30,220	(30,220)
Cash flow sensitivity	30,220	(30,220)

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

(e) Fair values of financial assets and liabilities

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

24. COMMITMENTS

	2010 $	2009 $
Office rent		
Less than one year	33,333	-

25. RELATED PARTIES

(a) Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see note 8) is as follows:

	2010 $	2009 $
Short term employee benefits	372,484	212,175
Post-employment benefits	9,534	11,182
Share-based payments	-	6,061
	382,018	229,418

(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.

25. 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:

			Transactions value year ended 31 December		Balance outstanding as at 31 December	
		Note	2010 $	2009 $	2010 $	2009 $
Key management person	***Transaction***					
David McArthur	Management fee	(i)	37,250	65,000	-	5,958
Rhod Grivas	Consulting services		-	8,400	-	9,240
Total and current liabilities					-	15,198

(i) The Company paid a management fee for the period 1 January 2010 to 8 July 2010 to Broadway Management Pty Ltd, a company associated with Mr McArthur.

(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 2010	Granted as compen-sation	Exercised	* Other changes	*** Held at 31 December 2010	Vested during the year	Vested and exercisable at 31 December 2010
Directors							
John Begg	-	-	-	2,350,000	2,350,000	2,350,000	2,350,000
Gary Jeffery	-	-	-	2,966,400	2,966,400	2,966,400	2,966,400
Brett Mitchell	-	-	-	247,357	247,357	247,357	247,357
David McArthur	-	-	-	635,781	635,781	635,781	635,781
Rhod Grivas	333,334	-	-	25,000	358,334	25,000	358,334

	** Held at 1 January 2009	Granted as compen-sation	Exercised	* Other changes	*** Held at 31 December 2009	Vested during the year	Vested and exercisable 31 December 2009
Directors							
Rhod Grivas	333,334	-	-	-	333,334	116,667	333,334

* Other changes represent options acquired through entitlements and free attaching issues during the year
** Or date of appointment
*** Or date of resignation

25. 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:

	* Held at 1 January 2010	Purchases	Received on exercise of options	Sales	** Held at 31 December 2010
Directors					
John Begg	-	2,032,400	-	-	2,032,400
Gary Jeffery	-	2,098,800	-	-	2,098,800
Brett Mitchell	-	494,713	-	-	494,713
David McArthur	901,843	359,719	-	-	1,261,562
Rhod Grivas	43,334	6,666	-	-	50,000
	*** Held at 1 January 2009**	**Purchases**	**Received on exercise of options**	**Sales**	**** Held at 31 December 2009**
Directors					
David McArthur	626,500	275,343	-	-	901,843
Rhod Grivas	43,334	-	-	-	43,334

* Or date of appointment
** Or date of resignation

No shares were granted to key management personnel during the reporting period as compensation in 2009 or 2010.

(f) Other related parties

Contributions to superannuation funds on behalf of employees are disclosed in note 8.

26. GROUP ENTITIES

Name	Place of incorporation	Financial year end	2010 %	2009 %
Parent entity				
XState Resources Limited	Australia	31 December		
Subsidiary				
XState Mediterranean Pty Ltd (formerly Bombora Energy Pty Ltd, formerly) Bombora Energy Limited)	Australia	31 December	100	-
XState Resources (Arizona) Inc	USA	31 December	100	100

On 8 July 2010, the Company settled the acquisition of XState Mediterranean Pty Ltd (formerly Bombora Energy Limited) through the issue of 11,660,000 fully paid ordinary shares at a market value of 20 cents each.

Expenses relating to the acquisition of XState Mediterranean Pty Ltd have been capitalised in line with Australian Accounting Standard AASB 116 *Acquisition of Assets.*

27. AUDITORS' REMUNERATION

	2010 $	2009 $
Audit services:		
Auditors of the Company:		
Audit and review of financial reports (KPMG Australia)	56,259	58,365
	56,259	58,365
Services other than statutory audit:		
Other assurance services		
Investigating accountants report	19,477	-
Other services		
Taxation compliance services (KPMG Australia)	6,500	8,000
Taxation compliance services (KPMG Australia) *	6,500	-
	32,477	8,000

* Re: acquisition of XState Mediterranean Pty Ltd (formerly Bombora Energy Limited).

28. PARENT COMPANY DISCLOSURES

As at, and throughout the financial year ended 31 December 2010, the parent entity of the Group was XState Resources Limited.

	2010 $	2009 $
Result of the parent entity		
Loss for the period	(1,036,433)	(372,643)
Other comprehensive income	-	-
Total comprehensive loss for the period	(1,036,433)	(372,643)
Financial position of parent entity at year end		
Current assets	1,509,910	3,047,138
Total assets	8,930,092	3,047,266
Current liabilities	84,885	78,439
Total liabilities	84,885	78,439
Total equity of the parent entity comprising of:		
Share capital	38,517,929	31,884,265
Equity-settled benefits reserve	415,549	136,400
Foreign currency translation reserve	-	-
Accumulated losses	(30,088,271)	(29,051,838)
Total equity	8,845,207	2,968,827
Commitments		
Office rent		
Less than one year	33,333	-

29. SUBSEQUENT EVENTS

On 25 February 2011 the Group issued 10 million fully paid ordinary shares at an issue price of 12.5 cents per share (2009: $nil).

On completion of the above, the Company had on issue 77,536,588 fully paid ordinary shares as detailed below:

	Ordinary shares	
	Number	$
On issue at 1 January 2011	67,536,588	38,276,130
Placement of 10 million 12.5 cent shares	10,000,000	1,250,000
Capital raising costs	-	(61,188)
	77,536,588	39,464,942

All issued shares are paid in full.

At the reporting date, the Company had incurred $61,188 in capital raising costs in relation to the above.

DIRECTORS' DECLARATION

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

(a) the consolidated financial statements and notes, and the Remuneration report set out in section 4 in the Directors' Report, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the financial year ended on that date; and

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

(b) 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 2010.

3 The directors draw attention to note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Perth this 24th day of March 2011.

GARY JEFFERY
Director

KPMG

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

Report on the financial report

We have audited the accompanying financial report of XState Resources Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2010, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 29 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

KPMG

Independence

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

Auditor's opinion

In our opinion:

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

  (i) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 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 2010. 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 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

G- Hogg

Graham Hogg
Partner

Perth
24 March 2011

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 fully paid ordinary shares at 9 March 2011

Category			Number of Shareholders	Shares held
1	-	1,000	732	91,556
1,001	-	5,000	125	356,702
5,001	-	10,000	108	906,657
10,001	-	100,000	287	10,645,249
100,001	and	over	128	65,536,424
			1,380	77,536,588

(b) Distribution of options at 9 March 2011

Category			Number of Optionholders	Options held
1	-	1,000	29	6,975
1,001	-	5,000	104	447,417
5,001	-	10,000	78	644,619
10,001	-	100,000	104	4,715,581
100,001	and	over	77	42,623,487
			392	48,438,079

(c) Marketable Parcel

The number of shareholders holding less than a marketable parcel of ordinary shares is 838.

(d) 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.

1. SHAREHOLDER INFORMATION (continued)

(d) Substantial shareholders

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

Name	Ordinary shares Number of Shares
BT Portfolio Services Limited	4,028,766
Suburban Holdings Pty Ltd	3,900,871

(e) Unlisted 30 April 2012 Options

There are 333,334 options held by 1 holder on issue that are exercisable between $1.50 and $2.25 on or before 30 April 2012.

(f) Unlisted 21 January 2013 Options

There are 66,667 options held by 2 holders on issue that are exercisable at $0.24 on or before 30 April 2012.

(g) Shareholders

The twenty largest shareholders hold 40.74% of the total issued ordinary shares in the Company as at 9 March 2011.

(h) Listed Option holders

The twenty largest 30 June 2013 option holders hold 65.17% of the total issued 30 June 2013 options in the Company as at 9 March 2011.

2. TOP TWENTY SHAREHOLDERS AS AT 9 MARCH 2011

		Ordinary shares	
	Name	Number of shares	Percentage of issued shares
1	BT Portfolio Services Limited	4,028,766	5.20
2	Suburban Holdings Pty Ltd	3,900,871	5.03
3	Argonaut Equity Partners Pty Ltd	3,117,099	4.02
4	Mr Gary and Mrs Elizabeth Jeffery (Dungay Super fund)	2,098,800	2.71
5	Rock Doc Pty Ltd	2,032,400	2.62
6	Bond Street Custodians Limited	1,905,442	2.46
7	Craig Ian Burton (CI Burton Family A/C)	1,760,000	2.27
8	Mr Craig Burton	1,440,000	1.86
9	PATA Nominees Pty Ltd	1,300,000	1.68
10	Dasmac (WA) Pty Ltd	1,283,996	1.66
11	Andrew Ross Childs	1,277,000	1.65
12	Genteel Nominees Pty Ltd	1,200,000	1.55
13	Cygnet Capital Pty Ltd	1,100,000	1.42
14	Deck Chair Holdings Pty Ltd	1,000,000	1.29
15	Mr Errol Bome and Mrs Melanie Bome (The Bome Super Fund)	951,549	1.23
16	Mr George Sim	900,000	1.16
17	AFM Perseus Fund Limited	900,000	1.16
18	Berenes Nominees Pty Ltd	835,812	1.08
19	Jemaya Pty Ltd	821,826	1.06
20	Mr Ian Burton	800,000	1.03
		32,653,561	42.14

3. TOP TWENTY 30 JUNE 2013 OPTION HOLDERS AS AT 9 MARCH 2011

	Name	30 June 2013 Options Number of shares	 Percentage of issued shares
1	Craig Ian Burton (CI Burton Family A/C)	6,210,475	12.82
2	Argonaut Equity Partners Pty Limited	4,372,011	9.03
3	Suburban Holdings Pty Ltd	3,567,354	7.36
4	Mr Gary and Mrs Elizabeth Jeffery (Dungay Super fund)	2,966,400	6.12
5	Andrew Ross Childs	1,702,320	3.51
6	BT Portfolio Services Limited	1,618,079	3.34
7	Argonaut Investments Pty Limited	1,250,000	2.58
8	David Colin Archibald	1,147,500	2.37
9	Rock Doc Pty Ltd	1,000,000	2.06
10	Lake Garda Pty Ltd	1,000,000	2.06
11	Argonaut Equity Partners Pty	1,000,000	2.06
12	Bond Street Custodians Limited	886,668	1.83
13	AFM Perseus Fund Limited	859,255	1.77
14	John Douglas Begg and Adrienne Begg	750,000	1.55
15	Mr Craig Burton	720,000	1.49
16	Mr George Sim	611,666	1.26
17	Far East Capital Limited	545,834	1.13
18	Black Phoenix Omega Strategies Pty Ltd	512,500	1.06
19	Mooney & Partners Pty Ltd	500,000	1.03
20	Cosmec Nominees Pty Ltd	359,761	0.74
	Prospero Capital Pty Ltd	31,579,823	65.17