



XState Resources Limited

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31 January 2007

## **ASX LIMITED**

Dear Sir / Madam

### **REPORT ON ACTIVITIES FOR THE QUARTER ENDED 31 DECEMBER 2006**

No exploration activity was carried out by XState Resources during the quarter ended 31 December 2006.

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

At the same meeting shareholders approved the issue of 30,000,000 shares at 20 cents each to raise \$6 million in working capital. Approximately \$3.75 million of these funds were used to fund the Company's 50% interest in a joint venture with US listed Liberty Star Gold Inc to explore and possibly mine uranium leases located in Arizona, USA.

On 15 December 2006 official re-instatement to trading of the Company's shares was granted.

#### **Joint Venture – Arizona USA (XState 50%)**

The leases held by the joint venture are located in north-west Arizona, and are prospective for Uranium. The leases form part of a vast region called the "Arizona Strip".

The area that has been allocated to the joint venture by Liberty Star covers approximately 57 square kilometres. Within this area, there are approximately 20 prospective uranium pipe targets, of which three have been initially allocated to the joint venture and the balance are subject to a first right of refusal.

The pipes may contain numerous metals in addition to uranium, including copper, molybdenum and silver.

The three primary targets that have been allocated to the joint venture are the Elle, Hermina, and Hada Pipes.

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

Liberty Star have provided XState with initial exploration activities to be carried out by the joint venture, such exploration scheduled to commence in February 2007.

The total program will consist of 4,500 feet of reverse circulation drilling and 32,160 feet of diamond drilling in order to test three breccia pipes for uranium and other metal mineralisation, indicated by surface geology, geochemistry and geophysics. The target pipes are closely adjacent to a previously tested pipe held by a third party which has strongly anomalous mineralisation. These breccia pipes are part of the large uranium bearing breccia pipe terrain which occurs on the Arizona Strip lying just south of the Utah border. Eight mines were discovered and brought into production during the late 1970's and early 1980's within the immediate area producing 19.2 million pounds of U<sub>3</sub>O<sub>8</sub>. Those uranium bearing pipes were considered the second highest grade uranium mineral deposits in the world and the highest grade in the United States. Previously mined mineralisation has been in the 0.6% to 0.7% uranium or about 12 to 14 pounds U per tonne. At current prices this is approximately equal to 1 ounce of gold per tonne. Some of these known ore bodies contained as much as 55% uranium in some samples. In addition to uranium they were known to contain copper, zinc, silver, vanadium, cobalt, nickel, molybdenum, gallium, germanium and other metals. Past producers have recovered copper, silver and vanadium as by-products of uranium mining. Advances in hydrometallurgical extraction techniques as well as current high metal prices are important factors in the potential for important metal by-products or co-products of any defined uranium ore bodies.

The three breccia pipes have been defined by surface geophysics. The rotary holes are designed to penetrate the centre of each geophysical anomaly. Down hole electrical geophysics will be used to identify additional mineralisation within a 200 to 300 foot radius out from the rotary holes. Each rotary hole will then be entered by an NQ size (2.2 inch diameter) diamond core drill and directional diamond core holes will be drilled toward the mineral targets defined by the in-hole geophysics. The budget plans for forty-eight diamond core holes consisting of 32,160 feet of core drilling.

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

Yours faithfully

**XSTATE RESOURCES LIMITED**



**DAVID McARTHUR**

Director

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98.

Name of entity

XSTATE RESOURCES LIMITED

ACN or ARBN

009 217 154

Quarter ended ("current quarter")

31 December 2006

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	1	2
1.2 Payments for		
(a) exploration and evaluation	-	-
(b) development	-	-
(c) production	-	-
(d) administration	(190)	(226)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	7	7
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>	<b>(182)</b>	<b>(217)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	(3,713)	(3,867)
(c) other fixed assets	-	-
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>(3,713)</b>	<b>(3,867)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(3,895)</b>	<b>(4,084)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(3,895)	(4,084)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	6,149	6,329
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	6,149	6,329
<b>Net increase (decrease) in cash held</b>			
		2,254	2,245
1.20	Cash at beginning of quarter/year to date	97	106
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	2,351	2,351

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	42
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Includes all management and consulting fees and salaries paid to directors and director-related entities during quarter, as well as superannuation paid on behalf of directors.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

+ See chapter 19 for defined terms.

### Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation paid via JV investment	-
4.2 Development	-
<b>Total</b>	-

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.2

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	2,351	97
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	2,351	97

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**


*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b>	Nil	N/A	N/A	N/A
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	N/A	N/A	N/A	N/A
7.3 <b>+Ordinary securities **</b>	53,429,593	48,629,593	N/A	N/A
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	31,650,000	31,650,000	20 cents	20 cents
7.5 <b>+Convertible debt securities</b>	Nil	N/A	N/A	N/A
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	N/A	N/A	N/A	N/A
7.7 <b>Options</b> Listed options	6,725,000	0	<i>Exercise price</i> 20 cents	<i>Expiry date</i> 30 June 2007
7.8 Issued during quarter	N/A	N/A	N/A	N/A
7.9 Exercised during quarter	150,000	0	20 cents	30 June 2007
7.10 Expired during quarter	Nil	N/A	N/A	N/A
7.11 <b>Debentures</b> <i>(totals only)</i>	Nil	N/A		
7.12 <b>Unsecured notes</b> <i>(totals only)</i>	Nil	N/A		

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:  Date: 31 January 2007  
Director

Print name: David McArthur

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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