



XState Resources Limited

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4<sup>th</sup> May 2010

**ASX LIMITED**

**CLEARER COPY OF EARLIER ANNOUNCEMENT**

Due to computer problems we were unable to release a clear colour copy of our earlier announcement.

Please refer to the attached document which shows all maps in colour.

Yours faithfully

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

**DAVID MCARTHUR**  
Director

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4<sup>th</sup> May 2010

**ASX Limited**

## **XSTATE TO ACQUIRE ADVANCED TUNISIAN OIL AND GAS ASSETS**

### **Transaction Highlights**

- XState Resources Limited (**XState**) has executed a conditional agreement to acquire 100% of Bombora Energy Limited (**Bombora**), an unlisted Australian public company which is in the process of earning 10% interests in onshore and offshore hydrocarbon permits in Tunisia and an Italian offshore permit, adjacent to commercial hydrocarbon fields.
- Tunisia and Italy have well-established oil and gas industries, including a direct gas pipeline from Tunisia into attractive European gas markets.
- Bombora holds the right to earn a 10% interest in an offshore permit containing the Dougga gas/condensate discovery, and surrounding exploration acreage that includes the large Lambouka Prospect.
- The Dougga discovery has recoverable Contingent Resources of 420 billion cubic feet (Bcf) of gas and 29 million barrels (mmbbl) of condensate.
- Drilling is to commence in June/July on the large offshore Lambouka-1 exploration prospect that has potential for 270 million barrels of recoverable oil equivalent (mmboe). Rig contracted and undergoing final inspection prior to being mobilised to location.
- 640 square kilometre 3D seismic program being completed over the offshore Dougga discovery and key follow on prospects.
- Bombora also holds an option to increase its interests in the offshore permits to 20% following completion of the 3D seismic and Lambouka-1 exploration well. This option includes the existing Dougga discovery but excludes the Lambouka prospect area.
- Bombora also has the right to earn a 10% interest in a large onshore Tunisian exploration licence with multiple exploration leads and prospects in a well known hydrocarbon province. Drilling of a potential 120mmbbl recoverable prospect is scheduled for November 2010.
- Experienced oil and gas team to lead the enlarged company.
- Argonaut has agreed to act as lead manager to the proposed capital raisings, assisted in structuring the transaction, and is arranging an interim working capital facility for Bombora.

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## Overview

XState is pleased to advise that it has reached a conditional agreement to acquire Bombora, which holds the right to earn interests in three large projects with permits located onshore and offshore Tunisia and offshore Sicily. The assets include the existing, as yet undeveloped, gas and condensate (light oil) Dougga discovery and a range of other prospects and leads with potential for recoverable resources of hundreds of millions of barrels of oil and large resources of gas. The permits are located in well known and existing hydrocarbon producing areas.

XState, Bombora and major shareholders of Bombora have entered into a conditional agreement pursuant to which XState has agreed to make offers to all of the shareholders of Bombora to acquire 100% of their issued shares in Bombora (**Acquisition**). The Acquisition, if approved by XState shareholders will involve a change in the nature and scale of XState's activities, which will require XState to re-comply with Chapters 1 and 2 of the ASX Listing Rules.

Tunisia and Italy have attractive fiscal terms for oil and gas production, and good access to support services and oil and gas infrastructure. There are existing oil export facilities and direct gas pipeline connections from Tunisia across the Mediterranean Sea into the attractive European gas markets.

These oil and gas assets are being acquired by XState via the purchase of Bombora, which secured the rights to the assets via farmin agreements in early 2010. Bombora was founded by respected oil industry pair, Gary Jeffery and John Begg. At completion of the acquisition Messrs Jeffery and Begg will join the Board of XState, with Mr Jeffery to take on the role of Managing Director and Mr Begg the role of non-executive Chairman.

In connection with the Acquisition, XState intends, subject to shareholder approval to undertake a reconstruction of its share capital on the basis of 1 share for every 3 shares on issue at the record date of the reconstruction (**Reconstruction**).

Under the terms of the agreement, XState will seek to acquire Bombora through the offer of approximately 11.7 million XState ordinary shares (on a post-Reconstruction basis) to the Bombora shareholders. Completion of the Acquisition is subject to all of the Bombora shareholders accepting the offer by XState. The acquisition of Bombora and associated transactions will also be subject to XState shareholder approval and will require XState to undertake a re-compliance listing with the ASX. XState shareholders will receive a notice of meeting in due course outlining the resolutions regarding the acquisition of Bombora.

In conjunction with the Acquisition, XState plans to raise \$1.74 million in new working capital through the issue of new shares and options. This new working capital, in addition to XState's existing cash balance of approximately \$2.9 million, will be used to fund Bombora's share of the offshore 3D seismic program and the offshore Lambouka and onshore exploration wells to be completed in 2010.

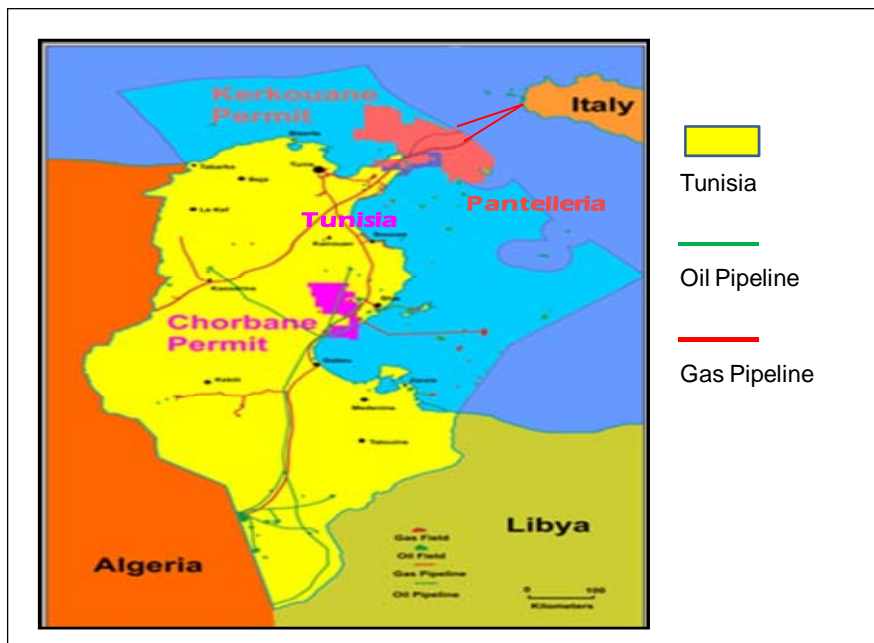
Additional funding may be required for any testing programs resulting from the drilling of the two exploration wells, and future appraisal of the Dougga discovery.

In the Bombora project summaries below all resource estimates quote figures derived from project operator Audax Resources Limited (ASX:ADX).

## Bombora Energy's Oil and Gas Assets

Bombora currently holds the right to earn interests in the permits, detailed as follows:

Permits	% interest
Tunisia onshore-Chorbane permit	10
Tunisia offshore- Kerkouane permit	10 (option to increase to 20, Lambouka remains at 10)
Sicily offshore-Pantelleria permit	10 (option to increase to 20, Lambouka remains at 10)



Schematic Location Map of the Assets in Tunisia and Italy

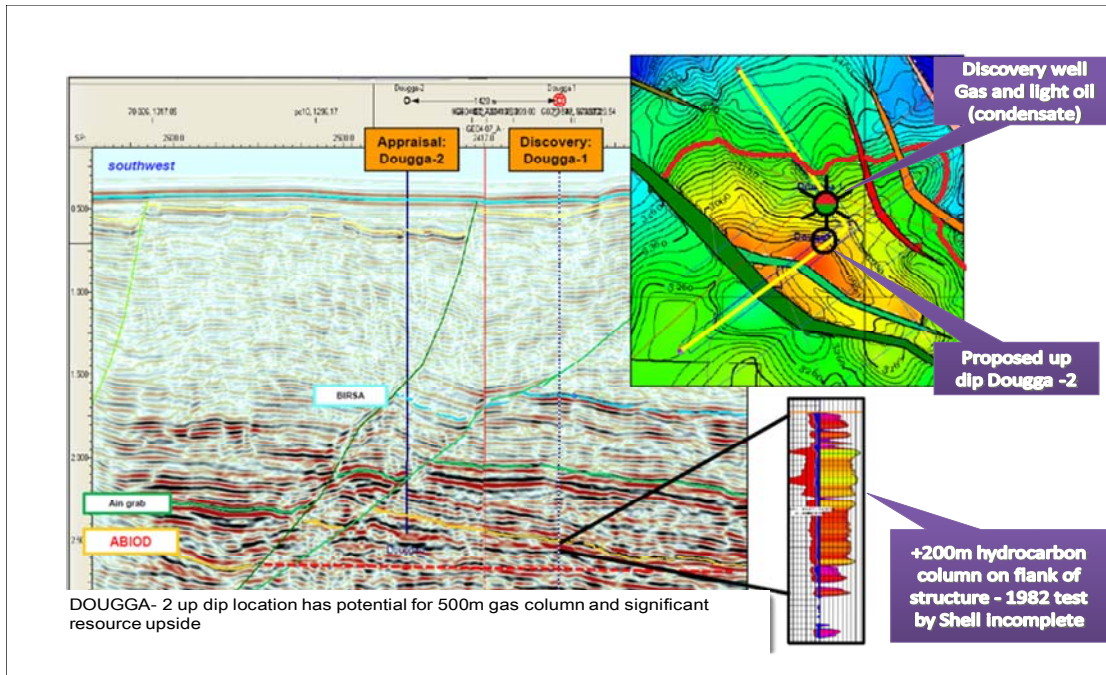
### Offshore Permits: Kerkouane (Tunisia) and Pantelleria (Italy)

These permits cover an area of over 4,500 Km<sup>2</sup>; water depths from around 20m to over 1000m.

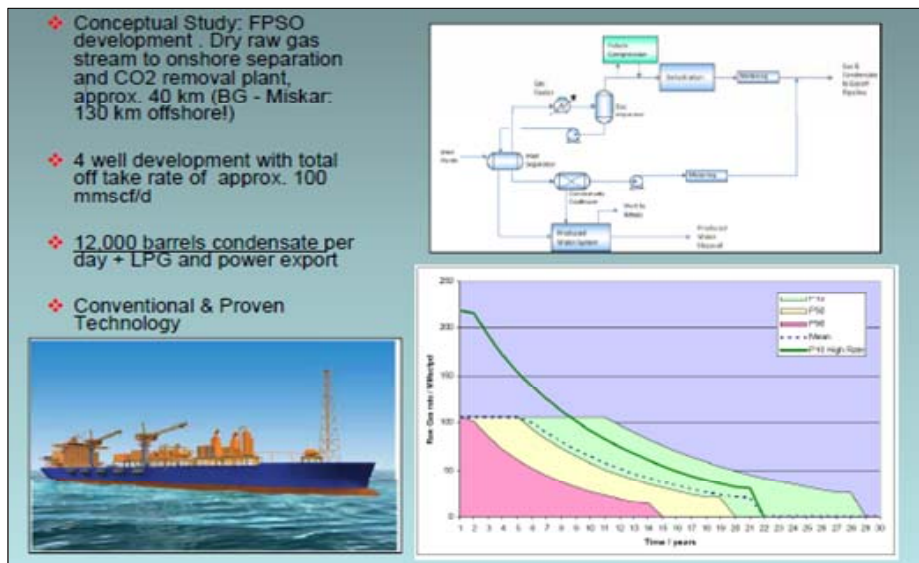
Bombora is earning a 10% interest by part funding a 640 km<sup>2</sup> 3D seismic survey that has just been acquired for a cost to Bombora of US\$0.7 m. After this, Bombora will contribute to future programs in proportion to its 10% interest in the permits, which include the Lambouka -1 exploration well and any future appraisal of the Dougga discovery.

## Dougga Discovery

Dougga was discovered in 1982 in 330m of water and has estimated Contingent (recoverable) Resources of 420 Bcf gas and 29 mmbbls of condensate or light oil. This discovery will be covered by the 3D seismic program and is expected to be the focus of future appraisal and development activity. The main reservoir is the carbonate Abiod Formation, a prolific producer elsewhere onshore and offshore Tunisia. Indicative CO<sub>2</sub> content of approximately 30% in the gas impacts on the development cost and historically suppressed the commercial potential. Technology advances and rising oil prices that have been evident over the past 12 months make Dougga an increasingly attractive asset.



Seismic line and map showing Dougga Gas / Condensate Field Appraisal Opportunity



Conceptual Development for Dougga Gas / Condensate Field

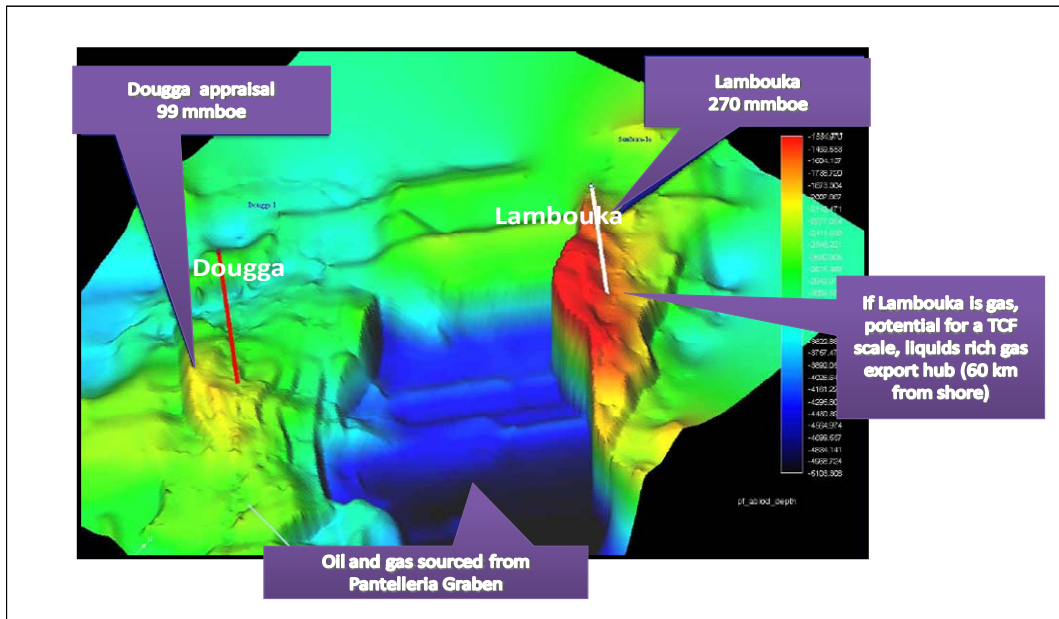
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## Lambouka Prospect and Additional Offshore Prospects

In the offshore permits more than 16 leads and prospects are mapped, including the very large Lambouka Prospect, which will be drilled in June – July 2010 using Atwood Oceanic's Southern Cross semi-submersible drilling rig. Bombora's expenditure commitments on the Lambouka drilling program (on a dry hole cost estimate basis) is approximately \$2.3 million.

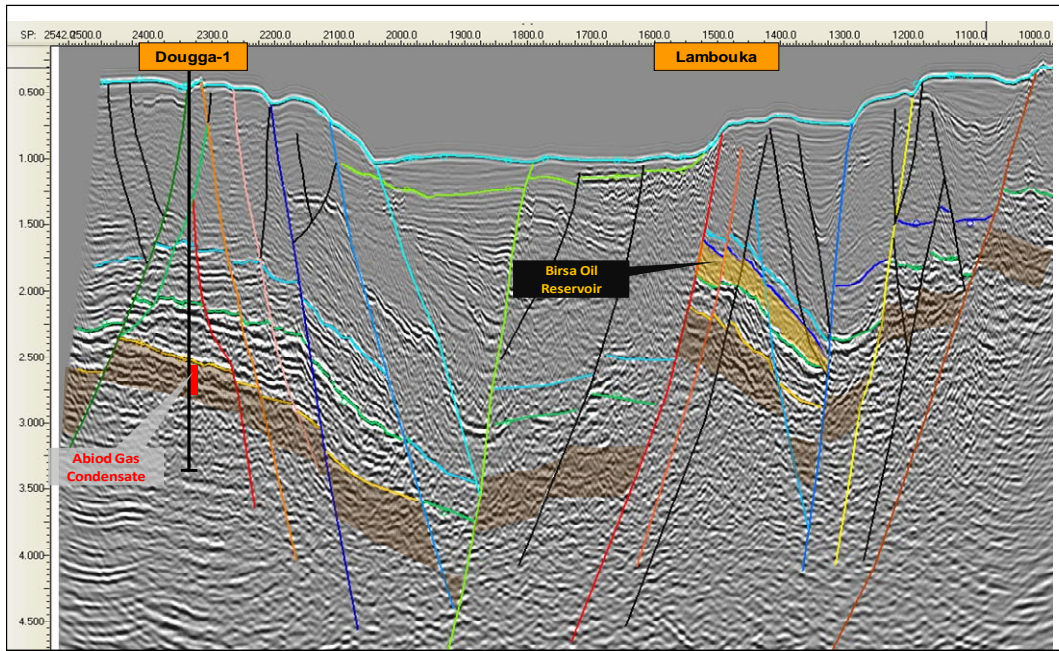
Lambouka has a Prospective (recoverable) Resource potential of 270 mmboe in three target horizons, all of which are present along geological trends and are productive elsewhere offshore Tunisia. The Lambouka -1 will be drilled in around 625m of water to a total depth of approximately 3,000 m at a location in Tunisian waters. The Lambouka Prospect extends into the adjacent Pantelleria permit.

Bombora considers the primary objective in Lambouka-1 to be the lower of three target horizons, the Abiod Formation which is also the hydrocarbon filled reservoir in the Dougga discovery.



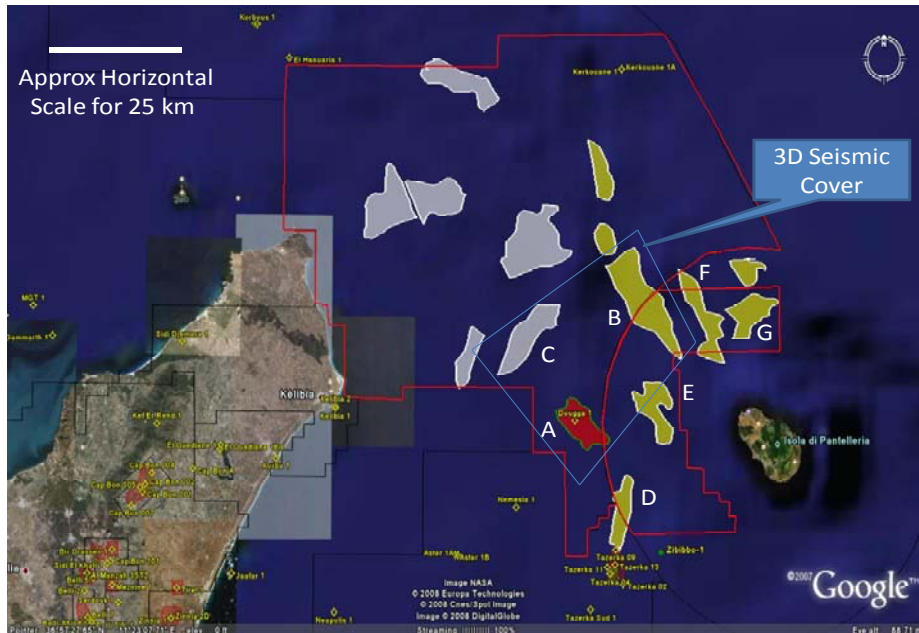
Schematic of Top Abiod Structure Map showing the Dougga and Lambouka Structures

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**Seismic Section showing in a relative sense Dougga Discovery and Lambouka Prospect**  
 (Note: Water column is truncated in this figure)

There are a variety of follow up prospects in the two offshore licence areas that are prospective for both oil and gas. Of the four structures previously drilled in and around the main prospective fairway, one is a producing oil field, three are as yet undeveloped oil and gas fields.



**Schematic Offshore Prospects and Leads Map showing approximate coverage of recently acquired 3D Seismic Survey**  
 (Refer to Table below for key to Prospect Names)

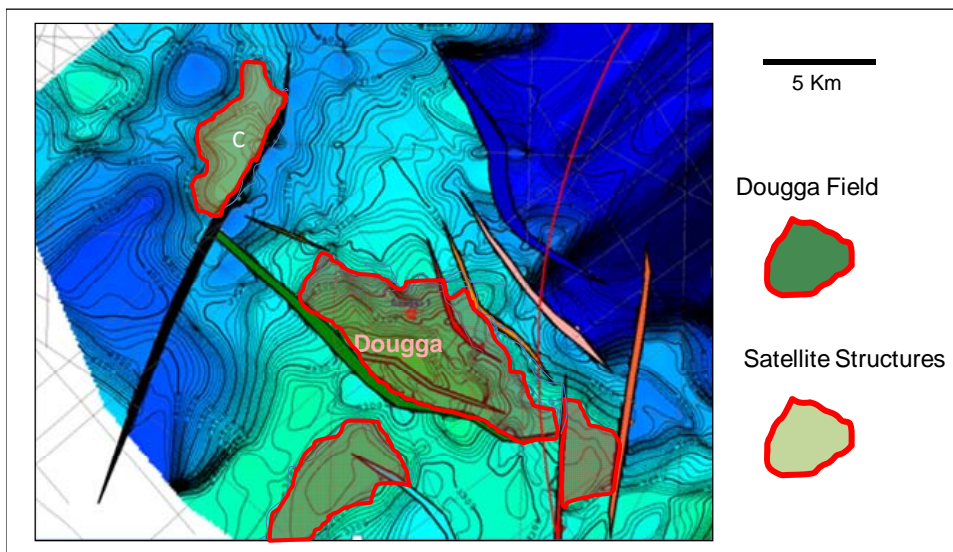
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**Table of Offshore Prospect and Lead Potential (Refer to map above)**

	Prospect or Lead	Mean Contingent Resources (recoverable mmboe)	Mean Prospective Resources (recoverable mmboe)
A	Dougga Discovery	99*	
B	Lambouka		270
C	North Dougga		70
D	North Tazerka		24
E	North Zibbibo		20
F	Galliano		122
G	East Galliano		146
	<b>Subtotals</b>	99*	652
<b>Total Mean Contingent and Prospective Recoverable Resources in Listed Prospects and Leads</b>		<b>751 mmboe</b>	

Note: \* 99 mmboe is equivalent to 420 Bcf gas plus 29 mmbbl Light Oil / Condensate

Dougga is surrounded by satellite closures (see map on next page) that could add significantly to the total resource and hydrocarbons liquids content if successfully appraised in the future.



**Top Abiod Reservoir Depth Structure Map showing Dougga Field and Satellite Structures**

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## Option to increase interest in Offshore Permits to 20%

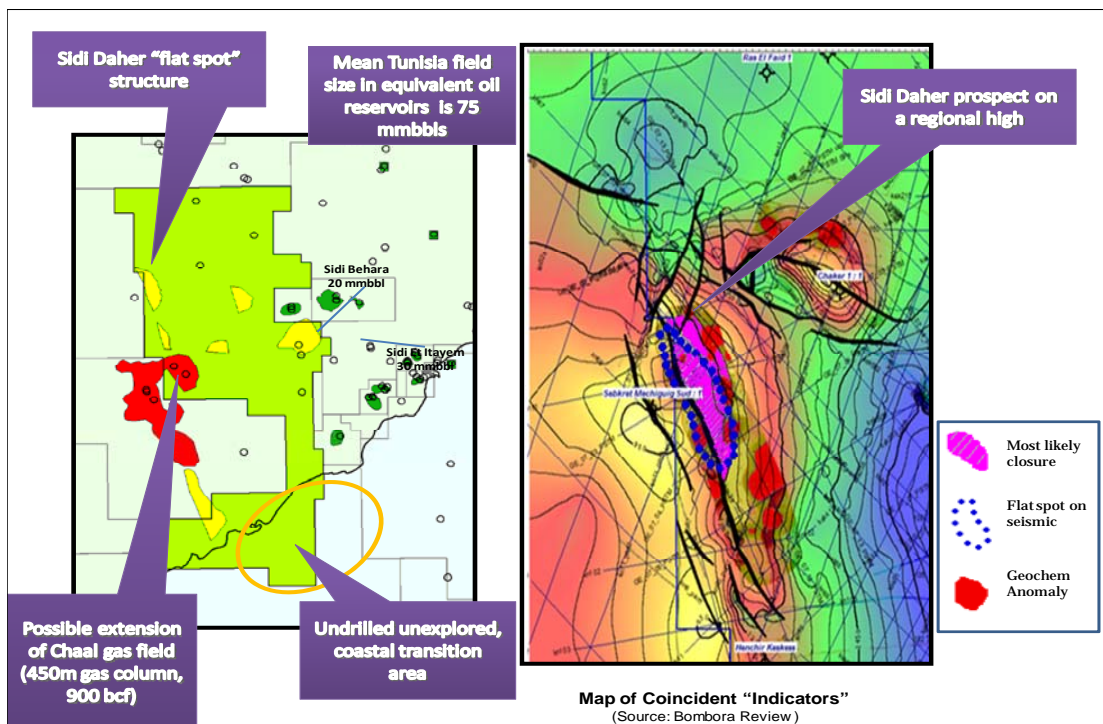
Bombora holds an option to increase its equity in the projects contained within the Offshore Permit (includes the Dougga discovery, but excludes the Lambouka Prospect) from 10% to 20% after receiving the results of both the 3D seismic and Lambouka-1. This contractual arrangement provides considerable commercial leverage to Bombora in the event of success at Lambouka or an advance in the development of Dougga.

Following exercise of the option, Bombora would refund Audax for 10% of past costs in the permits effective 1 January 2010, excluding drilling costs of Lambouka-1. Bombora would also fund an additional 15% of the next well to be drilled in the permits (excluding the Lambouka prospect area). Costs to earn the extra 10% interest may approximate A\$3.0 million.

## Onshore Chorbane (Tunisia)

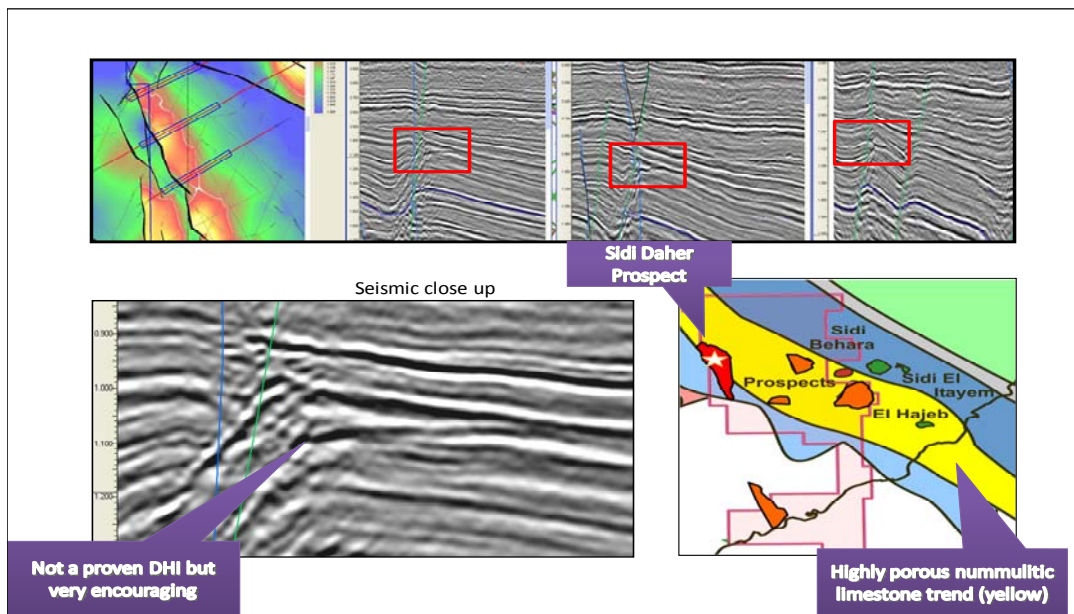
The Chorbane licence covers 2,428 km<sup>2</sup> adjacent to several onshore producing oil and gas fields. There is good operational access, and proximal access to oil and gas pipeline infrastructure and support services in Sfax.

Bombora is earning 10% in the area by part funding on a promoted basis the drilling of the Sidi Daher Prospect which is expected to begin drilling by November 2010.



Onshore Chorbane surrounded by producing oil and gas fields and Sidi Daher prospect map

Sidi Daher has estimated Prospective (recoverable) Resource potential of 120 mmbbls hosted in three target reservoirs that are productive along geological trend. The prospect is characterised at the shallowest target level by a Flat Spot anomaly on various vintages of the crossing 2D seismic grid. This anomaly may be a direct hydrocarbon indicator (DHI). Such anomalies when proven by drilling usually represent the base of a gas accumulation. A survey has revealed surface geochemical anomalies (hydrocarbons) that are reasonably consistent with the extent of the Flat Spot anomaly.



**Montage of 2D Seismic dip lines showing the “flat spot”, and key related reservoir trend across Sidi Daher Prospect**

The estimated Prospective (recoverable) Resource potential mapped for the Flat Spot reservoir alone is 176 Bcf of gas. There would be a ready market in Tunisia for an onshore gas accumulation of this size. Tunisia is also directly connected to European gas markets by pipelines.

The Sidi Daher -1 well will be drilled to approximately 2,500 m and Bombora’s share of costs (on a dry hole basis) is estimated to be \$1.1 million, of which \$0.55 m has already been paid by Bombora.

There are a range of additional leads and prospects in the licence area including the possible extension of a large gas discovery (approximately 900 Bcf gas in place reported in the adjacent licence) in the southwest part of the Chorbane licence.

**Cash Position- Post Raisings and Expected Exploration Expenditure in 2010**

	<b>AUD \$ (million)</b>
XState current cash balance	\$2.9m
Cash raised from planned placements	\$1.7m
3D Seismic	(\$0.7m)
Lambouka well (dry hole)	(\$2.3m)
Chorbane onshore well (dry hole)	(\$0.6m)
<b>Available working capital</b>	<b>\$1.0m</b>

**Transaction Summary and Capital Structure post Acquisition**

XState has executed a conditional agreement to acquire Bombora through the offer of approximately 11.7m ordinary shares (on a post-Reconstruction basis) to be issued to Bombora shareholders, subject to XState shareholder approval and other conditions, detailed below.

XState will undertake a capital raising under a prospectus to enable the recompliance with ASX listing rules as a result of the Acquisition. XState will apply to quote the new shares and options on the ASX.

Argonaut will act as lead manager to XState in relation to the capital raisings.

The XState Reconstruction and offers to be made as part of the Bombora Acquisition, subject to XState shareholder approval, are set out below:

- Reconstruction of its capital base on a 1 new for 3 existing basis, reducing shares on issue from 55m to 18.3m (**Reconstruction**)
- Pro rata offer of 1 new option for every 2 shares held (post Reconstruction) to existing XState shareholders, issuing 9.2m options for \$0.01 each, exercisable at \$0.24 each (**Entitlements issue**)
- Capital raising of approximately 7.5m Shares at an issue price of \$0.20 plus one (1) free attaching option for every two (2) Shares, exercisable at \$0.24 per option pursuant to a prospectus. This will include a priority offer to existing XState shareholders (**Capital Raising**).
- Issue of 11.7m ordinary shares to Bombora shareholders as consideration for the Acquisition of 100% of Bombora's issued capital (**Consideration Shares**).
- Offer of 15m options for \$0.01 each, exercisable at \$0.24 each This includes the issue of 2.5m options to Argonaut in consideration for its role as lead manager to the transaction.

### **Bombora Interim Working Capital Loan Facilities**

The agreement also sets out the terms of \$1.5m working capital loan facilities to be provided as follows (**Loan**):

- \$1.0 million will be provided in accordance with the terms of a loan agreement with XState.
- \$0.55 million will be provided by third parties introduced by Argonaut, in consideration for the issue of a convertible note, in accordance with the terms of a convertible note deed. It is intended that the convertible note will be converted into shares in XState in the proposed Capital Raising at 20 cents per Share (**Convertible Note**).

The Loan shall be used by Bombora for working capital expenditure, in accordance with budgeted expenditure that must be approved by XState and the Convertible Note investors prior to the execution of the Loan Agreement and the Convertible Note Deed and will be included as an annexure to those respective agreements. The lenders shall have the right for the Loan be secured.

Under the terms of the Loan Agreements, it is contemplated that if the Acquisition is not completed due to negligence, breach or default of XState, the loans (including the Convertible Note) will automatically convert to ordinary shares in Bombora. If the Acquisition is not completed due to negligence, breach or default of Bombora, the loans will be repaid by Bombora and will accrue interest at 10% per annum, or be convertible into Bombora shares at the election of the lenders.

### **Conditions of the Acquisition**

The terms of the Agreement entered into by Xstate, the material conditions precedent to settlement of the Acquisition are set out below:

- XState and Bombora completing legal, financial and operational due diligence on the assets and material contracts of the other party, and being satisfied with the results of that due diligence.

## Conditions of the Acquisition (continued)

- XState obtaining all necessary regulatory and shareholder approvals required to complete the Acquisition including, without limitation, shareholder approval to:
  - change the nature and/or scale of XState's activities in accordance with ASX Listing Rule 11.1.2, if required by ASX;
  - proceed with the Reconstruction and the Capital Raising;
  - allot and issue the Consideration at settlement to the Bombora shareholders (in accordance with the ASX Listing Rules and/or Corporations Act); and
  - allot and issue 15,000,000 Options at an issue price of \$0.01 each, to be distributed to Argonaut or allottees nominated by Argonaut (in accordance with the ASX Listing Rules and/or Corporations Act).
- XState completing the Capital Raising and the Entitlements issue of options to existing Xstate shareholders;
- XState arranging for the Loan to be provided to Bombora;

XState shareholders will receive a notice of meeting as proposed in due course, outlining the resolutions regarding the acquisition of Bombora. As provided in the indicative timetable contained in the announcement, XState shareholders should note that XState will go into suspension on and from the day of the general meeting seeking approval for the condition set out above, until that date that XState is re-listed on the ASX, having recompiled with Chapters 1 and 2 of the Listing Rules to the satisfaction of ASX.

### XState Capital Structure- Pre and Post Completion

	Shares (m)
Ordinary Shares currently on issue	55.1
After 1 for 3 existing Reconstruction	18.4
Placement of 7.5 million shares <sup>1</sup>	7.5
Issue to Bombora shareholders on completion	11.7
<b>Total Shares post Bombora Acquisition</b>	<b>37.6</b>

	Options
Options on issue post Reconstruction	100,000 ex at \$ 1.50 116,667 ex at \$ 1.95 116,667 ex at \$ 2.25 66,667 ex at 24 cents
Pro rata issue 1 option for every 2 shares at \$0.01 per option	9.2m listed, ex at 24 cents each
Free attaching options to Placement shares	3.8m listed, ex at 24 cents each
Placement of options at \$0.01 per option	15.0m listed, ex at 24 cents each
<b>Total options on Issue</b>	<b>28.4m</b>

<sup>1</sup> 2.5m of placement shares (\$0.5 million) will be used to settle Convertible Note upon successful completion of the Bombora Acquisition.

The Company will immediately make application to the ASX to quote these new shares and options subject to the Bombora Acquisition, following XState shareholder approval.

As part of the Acquisition, it is intended that 2 Bombora nominee directors will join the board of XState, who will replace 2 of the existing 4 board members. Following these changes, the XState board will still consist of 4 directors, including a managing director, Mr Gary Jeffery and Mr John Begg as non-executive Chairman.

### Indicative Timetable

Event	Date
Execution of Agreement and Announcement of Acquisition	4 May
Despatch Notice of Meeting seeking approval for Acquisition	14 May
Lodgement of Prospectus with the ASIC	31 May
Company sends notice to shareholders of Entitlements issue	1 June
Ex date for Entitlements issue	2 June
Record Date for eligible shareholders under Entitlements issue	8 June
Despatch date - despatch Prospectus for Entitlements issue to eligible shareholders, Announce Prospectus has been despatched	11 June
Opening of Offer for Capital Raising under the Prospectus	11 June
Opening Date for the Offer under the Entitlements issue	11 June
Suspension of XState's securities from trading on ASX at the opening of trading	17 June
General Meeting to approve Acquisition and Change in Nature and Scale of Activities	17 June
Closing Date for the Offer under the Entitlements issue	28 June
Closing Date of Offer for Capital Raising under the Prospectus	28 June
Despatch date for holding statements – Entitlements issue	29 June
Ex Date – Reconstruction	2 July
Record date for Reconstruction	8 July
Reconstruction	9 July
Settlement of Acquisition and issue of Shares under Capital Raising and Entitlements issue and other Option placements	12 July
Anticipated date the suspension of trading is lifted and XState's securities commence trading again on ASX	14 July

Shareholders should note that this timetable is indicative only and is subject to change. The directors of XState reserve the right to amend the timetable, and specifically with respect to the commencement of the pro rata entitlements issue of options as proposed.

### Pro forma Balance Sheet

Proforma statement of financial position as at 31 March 2010 following acquisition of Bombora and proposed XState capital raisings is set out on the next page:

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**Pro forma Balance Sheet**

	AUDITED 31 DECEMBER 2009	PROPOSED TRANSACTIONS	PRO - FORMA
<b>ASSETS</b>			
Cash and cash receivable	3,021,991	1,666,650	4,688,641
Trade and other receivables	25,147	-	25,147
<b>Total Current Assets</b>	<b>3,047,138</b>		<b>4,713,788</b>
<b>Acquisition, Exploration and Evacuation Expenditure</b>	<b>-</b>	<b>2,332,000</b>	<b>2,332,000</b>
<b>Total Assets</b>	<b>3,047,138</b>		<b>7,045,788</b>
<b>Liabilities</b>			
Trade and other payables	77,151	-	77,151
Employee benefits	1,288	-	1,288
<b>Total Current Liabilities</b>	<b>78,439</b>		<b>78,439</b>
<b>Total Liabilities</b>	<b>78,439</b>		<b>78,439</b>
<b>Net Assets</b>	<b>2,968,699</b>		<b>6,967,349</b>
<b>Equity</b>			
Share Capital	31,884,265	3,832,000	35,716,265
Resources	(349,952)	241,650	(108,302)
Retained Earnings	(28,565,614)	(75,000)	(28,640,614)
<b>Total Equity</b>	<b>2,298,699</b>		<b>6,967,349</b>

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For any questions/queries in relation to this announcement please contact David McArthur, Director on +61 8 9423 3200.

**Competent Persons Statement -**

*The technical information provided in this announcement has been compiled by Mr Gary Jeffery, Executive Director of Bombora Energy Limited. He is a qualified geophysicist with over 37 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 announcement. Mr Jeffery consents to the inclusion in this announcement of the matters based on the information in the form and context in which it appears.*

Yours faithfully

**XSTATE RESOURCES LIMITED**



**DAVID MCARTHUR**

Director

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