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ASX Limited

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XSTATE'S TUNISIAN OPERATIONS UPDATE

- **Offshore Lambouka Discovery Well Suspended for Future Re-entry**
- **Onshore Sidi Daher Prospect (300MMBOE) to commence drilling late 2010**

Lambouka-1 Update

As detailed in previous releases, analysis of the Lambouka-1 well information indicates a gas and associated condensate (light oil) discovery in offshore Tunisia with at least two hydrocarbon bearing zones interpreted to be present in the Abiod Formation – the primary objective for the Lambouka-1 well. A net pay of approximately 23 metre is interpreted within these two Abiod reservoir units.

This compares very favourably to the nearby Dougga discovery which is interpreted to have a net pay of 14 meters in the Abiod and an assessed mean recoverable resource of 96 MMBOE (million barrels of oil equivalent)¹. XState believes the size of the trap at Lambouka is potentially significantly larger than at Dougga.

The nature of the hydrocarbons is likely to be comprised of gas and possibly condensate in the lower interval based on the hydrocarbon shows recorded from the cuttings while drilling and gas chromatography. Importantly, no carbon dioxide (CO₂) was detected while drilling the Abiod Formation unlike in the Dougga-1 discovery.

"The offshore Kerkouane and Pantelleria permits cover an area of some 4500 square kilometres. Only three wells have been drilled on these permits and all three have been discoveries of gas, or gas and condensate. This level of success when combined with good quality, and extensive 3 D seismic coverage augers well for further discoveries and a favourable commercial outcome from the permits for XState."

Gary Jeffery- Managing Director XState Resources Limited

Lambouka Technical Review

Other zones of interest in the Lambouka well are to be investigated further. Interpretation of 3D seismic suggests there is up-dip potential from the crest of the structure to the Lambouka -1 well location of approximately 250 meters. In addition based on wireline interpretation, the first interpreted water bearing reservoir was encountered approximately 230 metres below the upper interpreted hydrocarbon zone.

¹ Prospective and Contingent Resource estimates from XState Prospectus dated 26 May 2010, Independent Experts Report

Specialist wireline logs and drilling data indicate that the Abiod limestone formations at Lambouka-1 are extensively fractured, which is a positive factor for reservoir productivity.

Mechanical difficulties with the well bore prevented carrying out an effective flow testing program designed to verify the hydrocarbon content and prove the hydrocarbon productive potential of the Abiod Formation zones. Consequently, it was decided to suspend the Lambouka -1 well in a manner suitable for a future re- entry, sidetrack and flow test program. The Southern Cross drill rig was released from site on 15 September.

The joint venture will now conduct a full evaluation of the well results, including integrating the new well data with the 3D seismic that covers the whole Lambouka structure before deciding the next steps in advancing the project.

Next Steps - Programs for Lambouka and Dougga

XState has only recently received the final processed version of the 3D seismic that was acquired in April 2010 in the area surrounding the Dougga and Lambouka structures. XState and the joint venture will interpret these data to not only advance understanding of the hydrocarbons accumulated at Dougga and Lambouka, but further define the follow-up prospects that have already been identified in the immediate area. The results of Lambouka-1 provide added confidence about the potential of these other prospects.

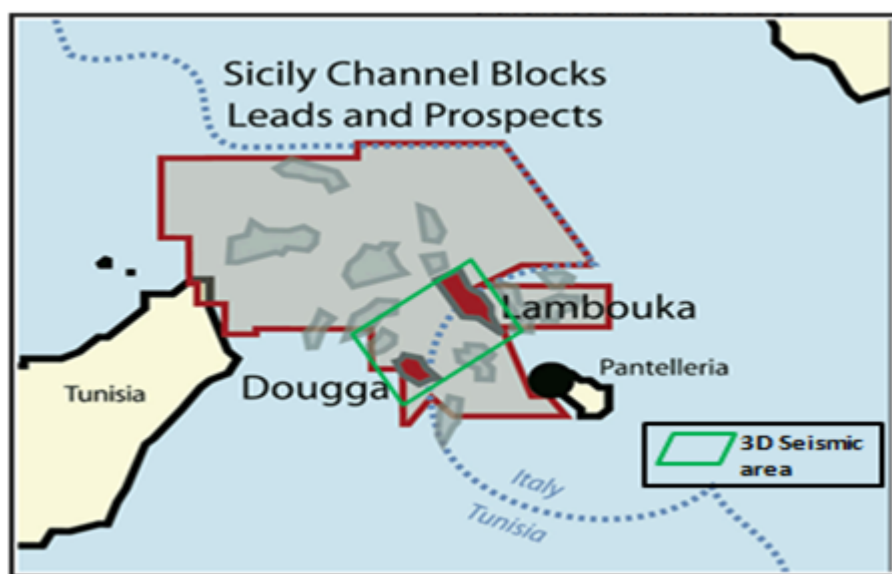


Figure 1: Offshore Tunisian and Italian Permits

These interpretations will be used in conjunction with current development cost scenarios to decide the best way for XState and joint venturers to realize value for shareholders from Dougga, Lambouka and the company's offshore Tunisia acreage as a whole.

As an emerging oil and gas company, XState has an excellent position in these exciting projects from which to grow its business. The Company has a 10% equity interest in Lambouka, and has an option to increase its equity to 20% in Dougga and some 4250 square kilometres of the Kerkouane and Pantelleria permits surrounding Lambouka from its current 10 % equity position. XState also has a 10% interest in the very prospective 2428 square kilometre onshore Chorbane Block.

Drilling of the onshore Sidi Daher Prospect (300 MMBOE) to Commence in late Q4 2010.

Exploration plans are being advanced with rig contracting and well site permitting underway to be ready to drill the large Sidi Daher Prospect in the Chorbane Block onshore Tunisia in late 2010. The Sidi Daher prospect has the potential for recoverable Prospective Resources of over 300 million barrels of oil equivalent² (MMBOE) from up to 6 reservoirs.

"The Sidi Daher Prospect is close to existing oil and gas pipelines and gas processing infrastructure which will facilitate early production from any discovery at Sidi Daher."

Gary Jeffery – Managing Director XState Resources

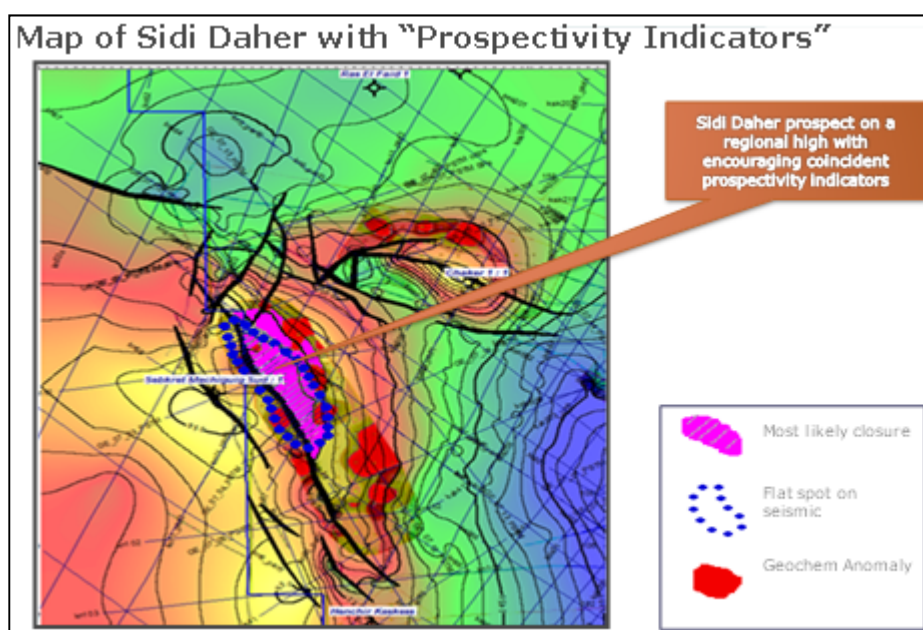


Figure 2: Sidi Daher Prospect Map

XState holds a 10% equity interest in Sidi Daher.

For further information on XState's Projects or the Lambouka-1 well, please visit the Company's website xstate.com.au or contact the Company on +61 8 9423 3200.

² Prospective and Contingent Resource estimates from XState Prospectus dated 26 May 2010, Independent Experts Report
www.xstate.com.au