



PRODUCTION TESTING UPDATE –23 JULY 2009

Paradox Basin #2 Grand County Utah

- **Testing of the Chimney Rock Formation has been completed.**
- **The Chimney Rock Formation was perforated and acidized before a series of flow periods.**
- **The formation was found to be a good reservoir and was not fracture stimulated due to high formation permeability.**
- **Gas was not produced during the initial testing so additional perforations were placed over the interval 12,284' to 12,299' which had displayed a strong gas show while drilling. Further flow periods did not recover any hydrocarbons.**
- **The up dip potential of the Chimney Rock Formation is of interest as a stratigraphic trap.**
- **Preparations are now underway to test the Primary gas bearing zone the Pennsylvanian Ismay Formation.**
- **Work is also currently underway to source a work-over rig for Paradox Basin #1 to prepare the well for production.**
- **Preliminary VSP results indicate the Leadville Limestone is structurally higher than expected.**

The Chimney Rock Formation is being abandoned after completion of acid stimulation and testing. The Chimney Rock Formation was not an objective in Paradox Basin #2. On initial penetration the Chimney Rock Formation was found to contain significant gas shows and had strong gas indications on logs.

The Chimney Rock Formation was perforated over a gross interval of 41' from 11,152' to 11,193' (3399-3411m). Expectation was that the Chimney Rock would produce either naturally or after fracture stimulation. An initial injection test confirmed high formation permeability. Due to the better than expected formation permeability the formation was not able to be fractured. Gas was not recovered during a series of flow tests which recovered all of the injected fluids before a change in salinity indicated the well was flowing formation waters.

As the Chimney Rock Formation was considered to potentially contain both water and gas bearing zones an additional set of perforations were placed over the interval 11,284' to 11,299' corresponding to a gas show seven of 545 units. No gas was observed after perforating. Had gas been observed the lower zone would have been isolated and independently tested.

ABN 39 063 074 635

181 Roberts Road Subiaco Western Australia

Postal: PO Box 616 West Perth 6872 Australia Ph: +61 8 9381 9522 Fax: +61 8 9381 9525

Email: gsr@goldenstate.com.au

For personal use only

The Chimney Rock Formation was not an objective in the Paradox Basin #2 well and does not contribute to the current discovered gas. It is one of the best reservoirs encountered in the field and is considered to have a stratigraphic closure and pinch-out up dip towards the Paradox Basin #1 well.

Preparations are now underway for testing the Ismay Formation which has proven production in Paradox Basin #1 and is considered the principle zone of interest in commercialising the Golden Eagle gas field.

The Ismay Formation is the main productive interval in the Paradox Basin accounting for 25.9% of all produced gas and 85% of produced oil. Paradox Basin #2 has encountered the Ismay Formations 283' (86m) lower in the structure than the confirmed productive zone in Paradox Basin #1.

The Ismay Formation will be perforated from 10,344' to 10,383' (3153-3165m) prior to a series of flow and injection tests. It is planned to then conduct a hybrid frac which is modelled to penetrate approximately 2000' (600m) into the formation. Operations are currently underway and are expected to take about 12 days. It will be several days before perforating, which will be followed by a series of performance inflow tests and pressure build-ups, required to plan the fracture stimulation. The Inflow tests will be followed by an injection test, further build-ups and possibly acidization. It is unlikely the fracture will be conducted until next week. Following the fracture the well will be flowed and a coil tubing unit will be utilised to assist flow-back of load fluids.

Preliminary results of the VSP survey have arrived and are being evaluated. They suggest the Leadville Limestone may be higher than expected. When the final results become available Golden State will review the viability of re-entering the well to assess the Leadville Limestone.

Golden State Resources is currently preparing to get a completion rig to work-over Paradox Basin #1 in order to rerun the tubing and conduct an extended flow test and prepare the well for production.



Richard De Boer
Executive Director

23 July 2009

For personal use only