



**GOLDEN EAGLE GAS FIELD UPDATE**

**26 NOVEMBER 2009**

- RPS Energy has completed an independent review of Golden Eagle Gas field following the drilling of Paradox Basin #2
- Discovered gas at the P90 level has increased to 9.0 Bscf with confirmation of gas 288' down dip in the Ismay Formation in Paradox Basin #2
- Paradox Basin #3 well design and planning is complete and Golden State is currently procuring a rig and services for a spud date early in the first quarter of 2010
- The current cost estimate is significantly lower than the previous wells at \$5.5 million
- Paradox Basin #3 has been designed as a production well with a 5" completion in the Ismay Formation reservoir. Drilling time is estimated at 60 days
- Permitting for Paradox Basin #3 is expected to be completed during December
- A program to re-enter and deepen the PB#2 well with the view of testing the Leadville Limestone has also been prepared
- Paradox Basin #1 and 2 can be effectively recompleted by sidetracking with short radius slant wells into the Ismay Formation

RPS Energy has completed an independent evaluation of the Golden Eagle gas field following the drilling and testing of the Paradox Basin #2 well.

Discovered gas-initially-in-place (GIIP) for the Ismay Formation has increased to 9.0 Billion standard cubic feet (Bscf) at the P90 (Low Estimate) following successful recovery of gas on test from the Ismay Formation in Paradox Basin #2. The gas was recovered along the southern flank of the structure 288' feet down dip of the equivalent Ismay Formation gas production in Paradox Basin #1.

Estimates for Discovered and Undiscovered GIIP for the P50 and P10 (Best Estimate and High Estimate) are 85.6 Bscf and 243.1 Bscf respectively. The volumes reflect the results of Paradox Basin #2 in the Pennsylvanian section as the well was positioned to intersect the crest of the Leadville Formation and was not ideal for testing the shallower Pennsylvanian targets. Objectives in the deeper Pennsylvanian section such as the Barker Creek, Alkali Gulch and Akah formations were intersected in close proximity to the bounding fault and are potentially isolated from the main structure. Results of the Independent estimates for the GIIP in Golden Eagle gas field are shown below.

Following the testing and evaluation of Paradox Basin #1 and 2 it is considered that both wells can be effectively recompleted to isolate the gas reservoirs from adjacent aquifers which are likely to be communicating with the gas reservoir via poor quality cement. The well would be recompleted by short radius sidetracks into the Ismay Formation gas reservoirs.

Recent testing and logging of both Paradox Basin #1 and 2 shows that the Ismay Formation gas zones communicate with adjacent saline aquifers. Logging on Paradox Basin #2 has resolved channelling along the cement and excessive vertical propagation of the fracture. The attempted stimulation has diverted upwards from the perforated gas zone at 10,336' to 10,384' to salt and water bearing formation from 10,135' to 10,210'. The poor cement bond over the Ismay Formation is due to the casing design required for drilling to 15,000'. The Ismay Formation is just below the base of the 9 5/8" casing. This places the Ismay Formation near the top of the 7" liner, which is too high above the shoe to effectively cement. The required casing design for the deeper tests is unsuitable for effective completions of shallower objectives.

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Planning and well design for Paradox Basin #3 has been completed with the permitting process well advanced. As Utah State drilling permits are generally issued between 45 to 75 days from application the issue of the Permit is expected in mid December.

**Table 1 Discovered Petroleum-Initially-In-Place – Gas (Bscf), Golden Eagle Gas Field**

Formation	Discovered PIIP (Gas Bscf)		
	Low Estimate (P90)	Best Estimate(P50)	High Estimate(P10)
Ismay	9.0	31.5	101.0
Barker Creek	6.2	14.4	30.7

**Table 2 Undiscovered Petroleum-Initially-In-Place – Gas (Bscf), Golden Eagle Gas Field**

Formation	Undiscovered PIIP (Gas Bscf)		
	Low Estimate (P90)	Best Estimate(P50)	High Estimate(P10)
Alkali Gulch	9.3	29.7	90.0
Leadville Limestone	3.0	10.0	21.4*

\* The high estimate by RPS limits the extent of the structural closure of the Leadville Limestone to the PB#1 well. Golden State Resources consider that PB#1 has not adequately tested the Leadville Limestone and that a higher realisation is possible.

Paradox Basin #3 will be directionally drilled to intersect the Ismay Formation updip to the north northeast of Paradox Basin #1. Paradox Basin #3 will spud from the existing Paradox Basin #1 pad, which has been re surveyed and will be upgraded for re-use. The well will be deviated to approximately 30° to intersect a subsurface target in the Ismay Formation 4,437' (1352m) to the NNE of Paradox Basin #1 on a bearing of 21.94°.

Paradox Basin #3 is designed primarily as an Ismay Formation production well. The well will be drilled into the Ismay Formation gas zone and completed with 5" casing. The lower diameter casing and proximity of the casing shoe to the completion zone will maximise the effectiveness of the cement over the gas bearing strata. The well design will minimise the possibility of cross-flow of water from highly saline artesian aquifers which has been identified as the most likely source of co-produced waters in both existing wells. Under the terms of the two well farm-in agreement with Eclipse the two previous wells were both engineered primarily as deep exploration wells and as a consequence the Ismay Formation could not be effectively isolated for gas production.

Our evaluation indicates that smaller, limited-entry fracture stimulations are best suited to completing the Ismay Formation. It is also proposed to log the reservoir with nuclear magnetic resonance logs which will provide superior reservoir evaluation. On completion of Paradox Basin #3 Golden State will assess the viability of recompleting both Paradox Basin #1 and 2 with sidetracks.

The company is also reviewing options to re-enter Paradox Basin #2 to test the Leadville Limestone. Post drill evaluation of Paradox Basin #2 from the processed VSP suggests that the well was possibly closer than expected to the Leadville target when it was suspended at 14,216' (4333m) after the bottom-hole assembly became stuck in dispersive claystone.

The company is still in discussions with potential financiers to debt fund the expansion of the field. In the event that debt funding is unsuitable the company will consider other funding options.



Richard De Boer  
Executive Director

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