



# GOLDEN STATE RESOURCES LIMITED

## QUARTERLY ACTIVITIES REPORT

For the Three Months ended 31 December 2008

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### HIGHLIGHTS

The last quarter has been a busy period as the Company works towards the drilling of the Paradox Basin #2 well and advances the commercialisation of the Ismay Formation gas discovery in our existing well Paradox Basin #1.

- **Paradox Basin #1**

The Paradox Basin #1 gas well was re-tested in December. The well flowed at a rate 1.168 MMcf/d during the flow test. The well was subsequently re-perforated and recompleted. Following the recompletion the indications were that higher permeability was accessed however operations were suspended due to a combination of poor weather and a mechanical blockage in the well.

- **Paradox Basin #2**

The Paradox Basin #2 well was spudded approximately 1.6km (1 mile) south west of Paradox Basin #1. Paradox Basin #2 will target prospective zones in the Pennsylvanian and Mississippian Paradox Basin sequence. Unit Drilling rig 234 has been contracted for the well. Rig 234 is a modern top-drive rig and is capable of drilling to 16,000 ft. Drilling operations are being directed by F.J. Brown and Associates, a Texas-based subsidiary of AGR Group, one of the world's largest drilling management companies.

- **Well Funding**

Golden State Resources Limited entered into a \$3 million share facility with Manly Investments Pty Ltd on 3 January. The share facility is subject to shareholder approval at a General Meeting scheduled for 6 February. Additionally, \$945,000 has been raised by the placement of 18.9 million shares and options.

- **New Chief Geologist and Senior Geologist appointed**

Golden State appointed a new Chief Geologist to oversee and manage the oil and gas assets of the company. Mr Richard de Boer has over 20 years experience in the petroleum industry. Mr de Boer accepted a position on the board following the retirement of John Hasleby.

Mr Greg Burns, a geologist with 15 years experience, was appointed as a senior geologist and will undertake management of the Company's West Australian gold assets.

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## GOLDEN EAGLE OIL & GAS PROSPECT, GRAND COUNTY, UTAH

### PARADOX BASIN #1 DISCOVERY WELL

Paradox Basin #1 was drilled in 2006 as the first of two exploration wells targeting a large structure in the Paradox Basin of Utah. Paradox Basin #1 was drilled to 16,471', into the Lynch Dolomite. Hydrocarbon gas was detected at 31 levels in the well, with petrophysical analysis confirming

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hydrocarbons in low porosity sediments in the Barker Creek Formation, Alkali Gulch Formation, Akah Formation, Lower Ismay Formation and Upper Ismay Formation.

Testing confirmed gas in the Barker Creek Formation, Akah and Upper Ismay Formation before the well was completed as a potential producer in the Pennsylvanian Upper Ismay Formation.

A review of the productive interval of the Upper Ismay Formation conducted during November indicated that additional perforations would provide access to more permeability and additional gas pay. A work-over of the Paradox Basin #1 well was approved during December. A flow test from Paradox Basin #1 was required to comply with a request from the Bureau of Land Management to witness gas flows from the well. As the flow test required mobilisation of a work-over rig and test equipment the company considered it was an ideal opportunity to work-over the well and perforate additional pay intervals within the Upper Ismay Formation gas discovery.

Work-over operations on the Upper Ismay Formation gas zone commenced on 15 December and ran till 31 December. Initial flow testing was conducted on 17 December. A flow rate of 1.168 Mcf/d with a well head pressure of 510psi was recorded 11 hours into the 24 hour flow test. A total of 2.141 million cubic feet of gas was produced during the 24 hour test.



**GAS FLARING DURING DECEMBER PRODUCTION TESTING.**

Following the test the well was perforated over the intervals 9740' to 9768', 9782' to 9798', 9830' to 9842' and 9850' to 9860'. After perforating completion fluid was lost to the hole, which was seen as an indication of an increase in exposed formation permeability. The well was recompleted and swabbed. After 16 swabs gas flowed naturally at rates from 416 to 1126 Mcf/day. Gas rate and well head pressure were erratic and indicted a blockage in the tubing. This was confirmed mechanically with a gauge ring.

Operations were suspended on 31 December, as the weather on site was severe and downhole gauges could not be run without pulling, repairing and rerunning the completion string.

### **PARADOX BASIN #2 GAS WELL**

The Utah Bureau of Land Management (BLM) approved the drilling permit for Paradox Basin #2 on 24 October 2008. Permitting had taken longer than expected due to staffing shortages at the BLM. This had a flow on effect on formal commencement of the environmental and heritage assessment which did not commence till March 2008. BLM surveyed the site in April 2008 after which the submission was subject to public comment. The final native tribes heritage consultation followed, after which the BLM conducted a final review before issuing the permit.

Site works commenced immediately and were completed during November.

Setting of the surface conductor to 100ft and drilling of a rat hole was undertaken during the first week of December, satisfying the obligation to spud within 60 days of issue of the permit.

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F.J. Brown and Associates Inc, which is incorporated in Texas, a subsidiary of AGR Group was engaged during November to plan and provide well supervision services for the Paradox Basin #2 well. F.J. Brown and Associates Inc has over 135 employees and will provide a range of critical services and expertise.

TIMELINE	
• Permit	Completed
• Site works completed	Completed
• Select rig	Unit Rig 234
• Spud	December 2008
• Deep drilling rig on site	2 February 2009
• Drilling	90 Days
• Testing and completion	20 days
• Potential first production	August 2009

Unit Drilling Rig 234 was contracted during December. Rig 234 is a 1000 horse power top drive rig with the capacity to drill to 16,000ft (4,877m). The casing programme was modified to better fit the rig's working capacity, avoiding the need to utilise a second rig as was reported during the period. As a result of being able to drill to the Leadville Limestone with a single rig the company will save on the additional mobilisation costs

and expects improved rig performance on the top hole section.

Rig 234 is scheduled to be on location 2 February, and drilling operations are scheduled to commence soon after.

Paradox Basin #2 is located 1 mile south–south-west of the original Paradox Basin #1 wildcat well. The well is located higher on the Golden Eagle Structure, with the prognosed top for the Cane Creek Formation some 800' higher than Paradox Basin #1. This more crestal position places the well closer to the bounding fault and in a zone of higher flexure. Faulting and flexure should contribute to increased vuggy fracture porosity as observed in the on-trend Lisbon Field, where porosity and permeability is associated with dissolution along fractures and faults.

In the event Paradox Basin #2 encounters gas in potentially commercial quantities the well will be completed with 4½" production casing prior to testing. Paradox Basin #2 is located close to the Williams gas pipeline and can be brought into commercial production if the well is successful.

## WELL FUNDING

### Share Facility

The Company entered into a 3 million dollar share facility with Manly Investments. Full details were lodged with the ASX on 7 January 2009. A notice of general meeting has been sent to share holders. Please refer to those documents for further details on the share facility agreement.

### Placement

Funds of \$945,000 have been raised by the placement of 18,900,000 shares at a price of 5 cents per share. Each share shall have one free attaching listed option exercisable at 20c and having an expiry date of 30 June 2009. The issue of the shares is within the Company's 15% placement capacity.

The shares and options are to be issued to clients of Cunningham Securities Pty Ltd ("Cunningham") of Perth. The Company will pay Cunningham a 6% commission on total funds raised.

The proceeds of the share placement will be for working capital on the Golden Eagle Oil & Gas Prospect.

## KEY APPOINTMENTS

### CHIEF GEOLOGIST

Rick de Boer commenced as Chief Geologist during October. Rick assumes management of the Company's oil and gas activities, including Golden Eagle. Rick joins Golden State from his previous role as Chief Geologist with AED Oil Limited. He has over twenty years experience in the oil and gas

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industry. Since graduating from Curtin University in 1984 he has worked for major Australian and international exploration and production companies including Mobil, BHP Billiton, Encana, Alberta Energy, Energy Equity Corporation, and Hardman Resources. Rick brings a strong and successful technical oil and gas background to the team at Golden State Resources. Rick accepted a position as an Executive Director following the retirement of Mr John Hasleby.

#### SENIOR GEOLOGIST

Mr Greg Burns was appointed as senior geologist during the quarter. Mr Burns has 15 years experience within the mining industry and includes exposure to the exploration and development of multiple projects and commodities throughout three continents. Mr Burns was jointly involved in the discovery and initial development of Adamus Resources >1.5M oz Salmon gold deposit located in the Ashanti Gold Belt in Ghana, West Africa. His role will be to assess and develop the Company's gold assets in Western Australia.

#### PROJECT BACKGROUND



The Paradox Basin is richly productive, with 171 oil and gas fields containing estimated recoverable reserves of one billion barrels of oil, or six trillion cubic feet of gas (Tcf) equivalent. The potential for more hydrocarbon reserves is enormous. Over its history, the Paradox Basin has produced 500 million barrels of oil and 3.5 trillion cubic feet of gas.

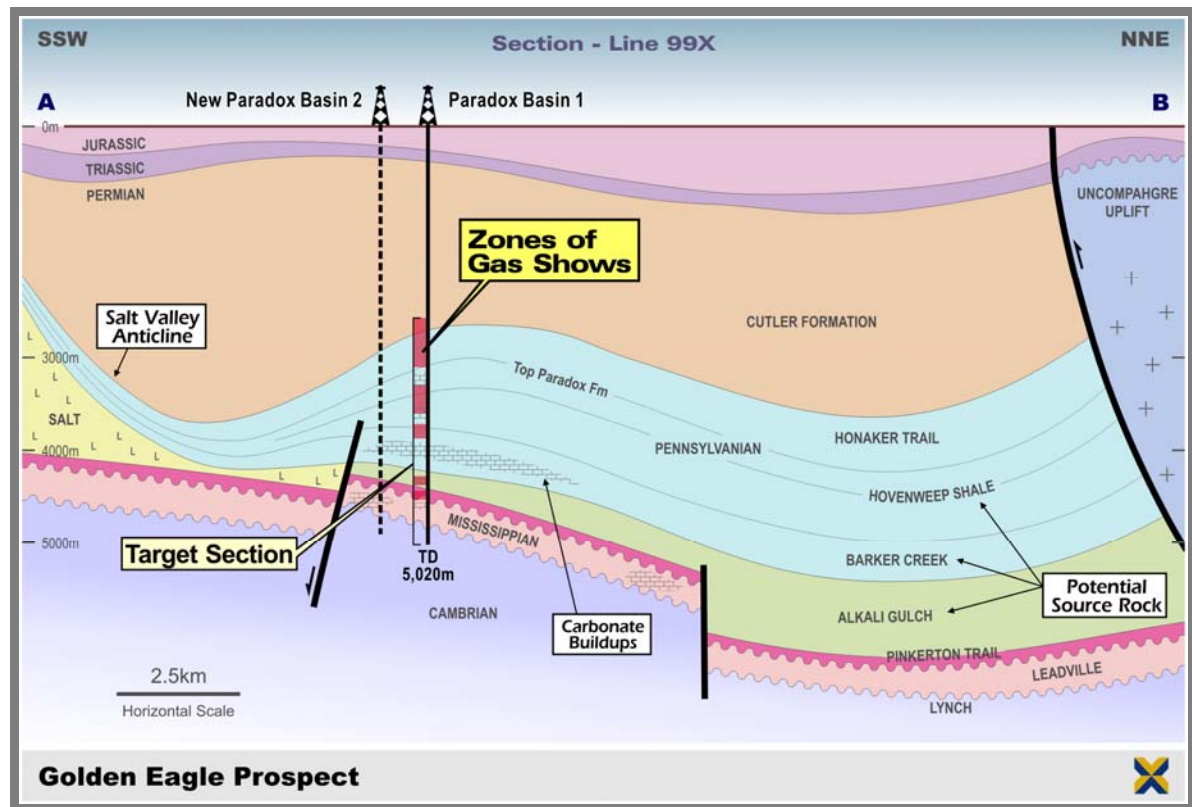
The Golden Eagle Prospect has been described as a geological 'look-alike' to the largest producing fields in the Paradox Basin. It is the only documented undrilled geological structure in the Paradox Basin that is similar in terms of structural style and size. These fields run along the same northern/southern producing trend, notably the Lisbon Field, which is 64 km to the project's south and has produced 53 million barrels of oil and 845 billion cubic feet of gas, and the Greater Aneth Field, 150 km south with production of 385 million barrels of oil.

Paradox Basin #1 tested the Golden Eagle Structure. Due to its depth and location it has been acknowledged as the most significant recent well in the Paradox Basin. The Golden Eagle Structure is located in

Grand County, Utah along the Paradox Fold and Fault Belt and is on structural trend with the Big Indian, Lisbon, Lightning Draw, Little Valley and Lisbon South Fields.

The primary target, the Mississippian Leadville Limestone, is an interval that is recognised as the principle gas target in the basin having produced more than 53 million barrels of oil/condensate and 845 Bcf of gas. The Leadville Limestone is recognised to have enormous potential for more hydrocarbon reserves in the Paradox Basin, adding to the total of 1.2 Tcf of gas and 500 million barrels of oil already recovered from numerous objective levels within the basin.

Paradox Basin #1 was drilled to 16,471' (5,020m) reaching total depth in the Cambrian Lynch Dolomite. The well produced gas on test and is currently suspended as a future producer. Strong gas shows are present in 31 zones over a 9,000' interval, including seven significant zones within Pennsylvanian and Mississippian sediments.



INTERPRETED SECTION ALONG SEISMIC LINE 99X

Independent log analysis of Paradox Basin #1 confirms movable hydrocarbons are present at numerous levels.

Mechanical issues associated with the casing hanger, caused by the contractor, resulted in the requirement to ream cement for 4 months. During which time, the Cane Creek and Pinkerton Trail zones, which had originally demonstrated favourable reservoir quality, were exposed to salt and over pressured drilling fluids which is likely to have damaged the well. This will not effect the potential production zones higher in the well.

The Barker Creek gas zone at 12,562' had persistent shows for a further 1000', presumably implying good reservoir, however as the zone was not cemented no valid test was possible. Valid testing of the primary objective Leadville Limestone was also prevented due to damage to the liner and lack of isolation from the overlying salt.

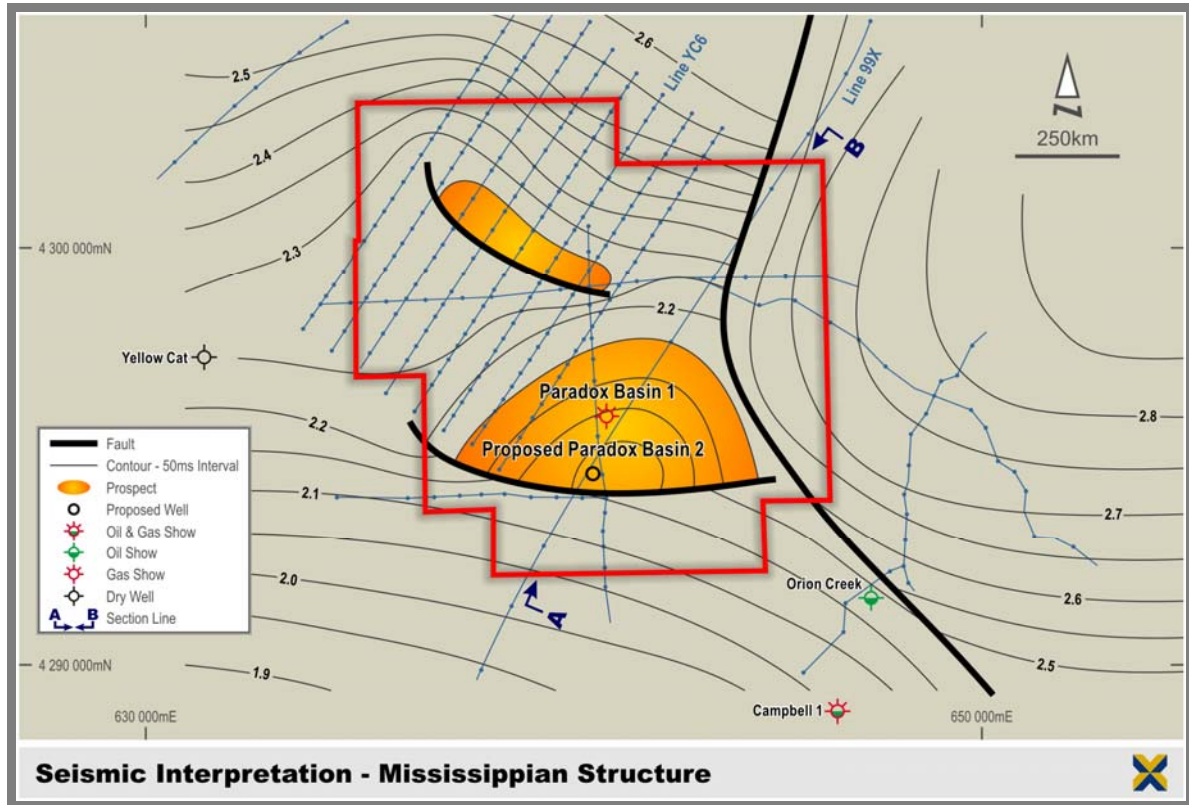
A Drill Stem Test of the Leadville limestone produced 20 barrels of saline waters comprising residual drilling and completion fluids and possibly formation waters. Paradox Basin #2 is located higher on the structure and will retest the Leadville Limestone.

#### GAS PIPELINE CONNECTOR

The 66cm (26 inch) Williams Northwest gas transmission pipeline crosses the north-western corner of Golden State's acreage. The current well, Paradox Basin # 2, is within 6 km of this pipeline. The Williams pipeline (Transco & Northwest) has storage capacity of 230 billion cu. ft and serves about 30 million homes. Williams has approved the site for a tap point on the main pipeline and permitting has commenced for a right-of-way connector.

As drilling costs will account for the bulk of any subsequent development programme cost (processing equipment, connection pipe work and tap fee are expected to be modest), a commercial discovery could be rapidly developed with cash flow expected within 4-6 months.

Permitting is proceeding for the gas pipeline connector from Paradox Basin #1 and, if successful, Paradox Basin #2 to the Williams pipeline. It is proposed to run the gas connector along the Company's existing Water Pipeline Right-of-Way.



Golden State holds an initial 100% interest in Paradox Basin #1, and project operatorship through its 100%-owned US subsidiary, Golden Eagle Exploration LLC. Denver-based joint venture partner Eclipse Exploration Inc has the right to back in with a 16.67% working interest after the drilling of Paradox Basin #2 by Golden State.

Richard Sciano  
Executive Director

30 January 2009

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