



# **GOLDEN STATE RESOURCES LIMITED**

## **QUARTERLY ACTIVITIES REPORT**

**For the Three Months ended 30 September 2008**

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### **HIGHLIGHTS**

- **Golden Eagle Oil & Gas Prospect, USA**  
Bureau of Land Management has issued drilling permit for Paradox Basin #2 gas appraisal well. Site preparations are advanced, spud rig available.
- **Gold-Nickel Joint Venture Executed, Laverton WA**  
Golden State gains value from existing gold - base metal assets.

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

#### **PERMITTING**

The federal Bureau of Land Management (BLM) issued the drilling permit for Paradox Basin #2 on 25 October 2008. Permitting took longer than expected due to staff shortages within the BLM, which had a flow on effect on formal commencement of the well environmental assessment, in March 2008. BLM surveyed the site in April 2008 after which the submission was subjected to public comment. The public and native tribes comment periods were concluded successfully.



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## SITE PREPARATIONS

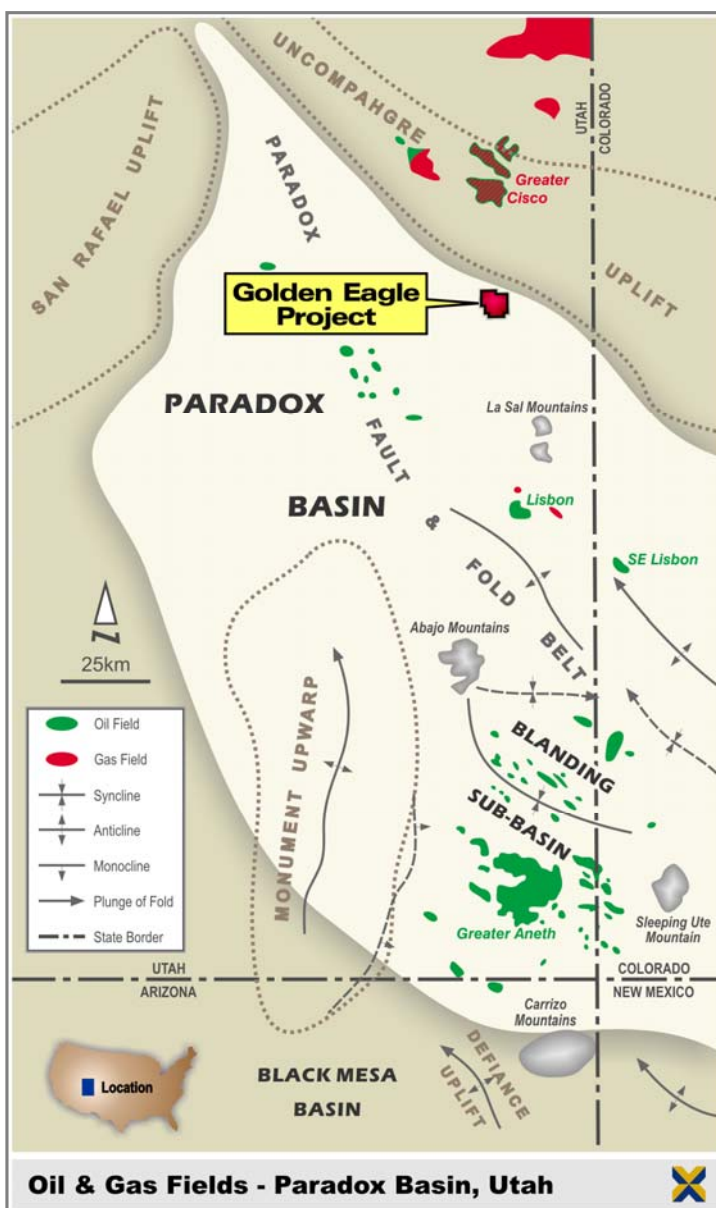
Site preparations are advanced, including refurbishment of the project's access road and bore field, in preparation for spudding the well

## SPUD RIG

Suitable drilling rigs for spudding the well are available. A contract will be awarded shortly.

## KEY APPOINTMENT - CHIEF GEOLOGIST

Golden State Resources is pleased to announce that Rick de Boer has commenced as Chief Geologist. 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, where he enjoyed recent success with the Puffin 11 well, which encountered a significant new oil discovery. He has over twenty years experience in the oil and gas 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 and Hardman Resources. Rick brings a strong and successful technical oil and gas background to the team at Golden State Resources.



## WELL FUNDING

The company currently has over \$4 million in cash and has been offered additional funds for the well. The board is pleased to be offered the additional funding and has elected not to accept funding due to the share price under current market conditions. The board will review the available funding arrangements early in the New Year, prior to contracting a deep drilling rig.

## THE PARADOX BASIN

The Paradox Basin is richly productive. Currently home to 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 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 Shut-in Production Well

#### PARADOX BASIN #1 WELL

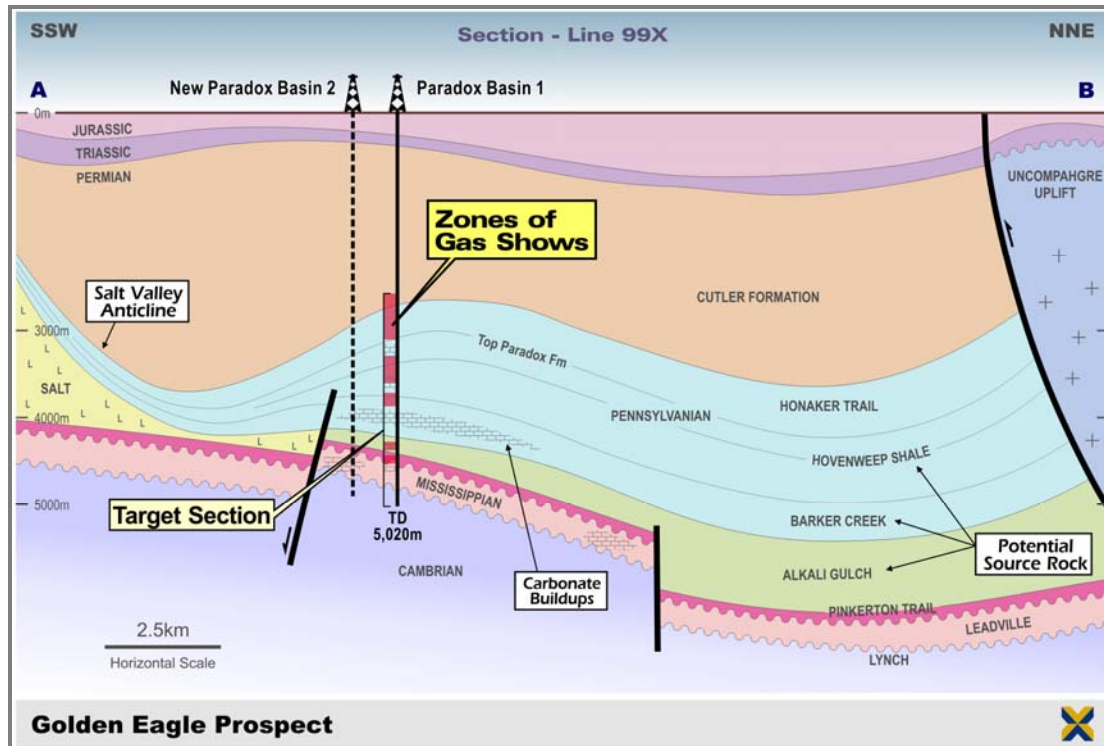
Paradox Basin #1, which tested the Golden Eagle Structure, has been acknowledged as the most significant recent well in the Paradox Basin. The Golden Eagle Structure is located in Grand County, Utah along the Paradox Fold and Fault belt and is on structural trend with the Big Indian, Lisbon, Lightning 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' (5020m) reaching total depth in the Cambrian Lynch

Dolomite. The well produced gas on test and is currently suspended as a future producer. Strong

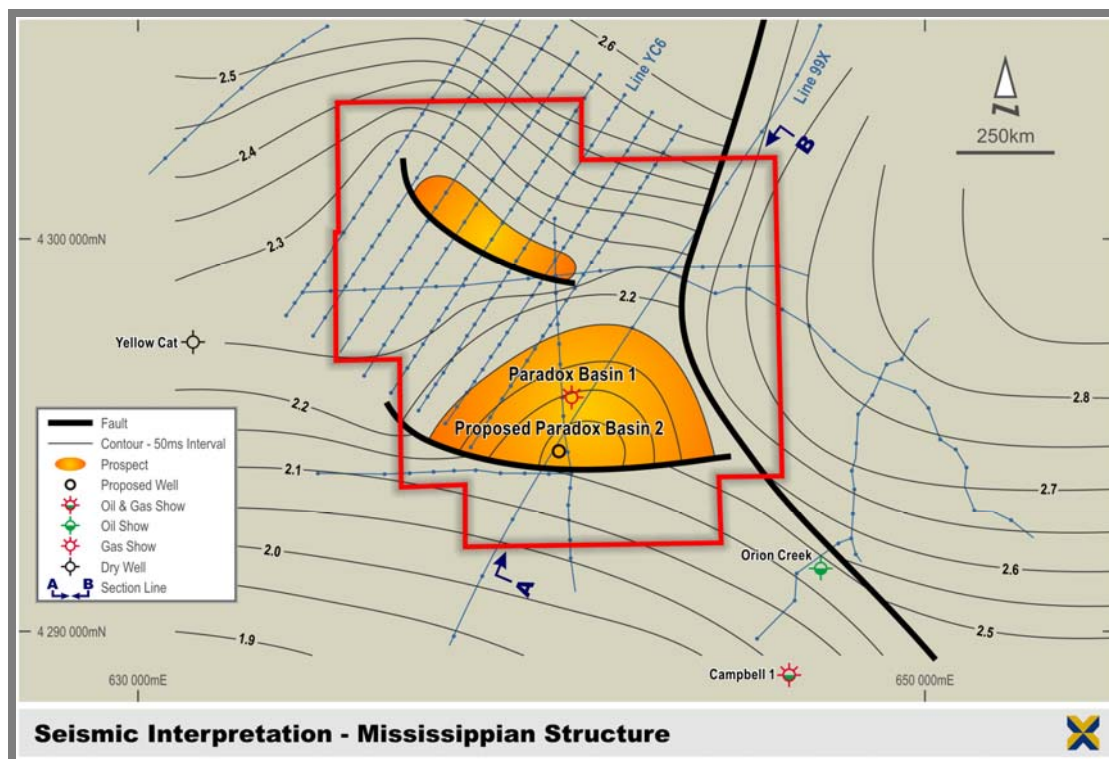
gas shows are present in 31 zones over a 9000' interval, including seven significant zones within Pennsylvanian and Mississippian sediments.



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.

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.



#### PARADOX BASIN #2 GAS WELL

Following completion of site works a spud rig will drill the surface hole, after which the well will be drilled to a depth of 16,000' using a larger rig.

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. The prognosticated top for the Cane Creek Formation is 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, porosity and permeability is associated with dissolution along fractures and faults.

Paradox Basin #2 will be completed with a 4½" production casing prior to testing. Should Paradox Basin #2 demonstrate commercial flow rates the well will be tied in as a gas producer.

#### GAS PIPELINE CONNECTOR

The 66cm (26 inch) Williams North-west (NW) gas transmission pipeline crosses the north eastern 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 discovery could be rapidly commercialised with cash flow expected within 4-6 months of success.

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.

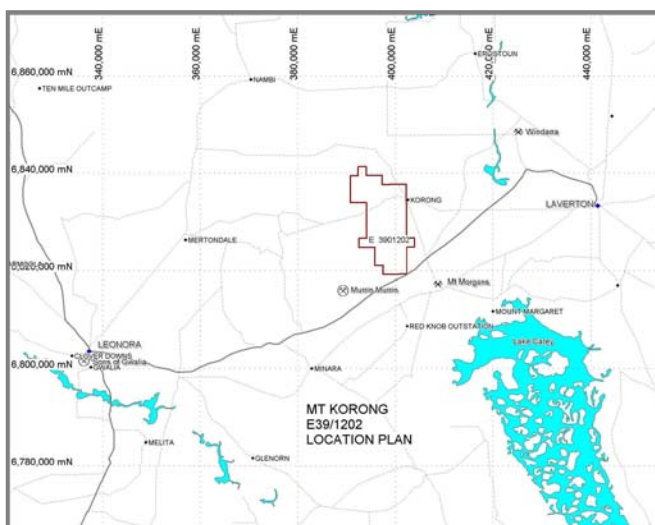
TIMELINE	
• Permit	Completed
• Site works completed	14 days
• Select spud rig	Early November
• Spud	Late November
• Deep drilling rig on site	February 2009
• Drilling	90 Days
• Testing and completion	20 days
• Potential first production	August 2009

#### INITIAL 100% OWNERSHIP AND OPERATOR

The Golden Eagle Prospect is a large 10,457 hectare (25,937 acres) area of State & Federal government oil and gas leases in south-eastern Utah in the United States.

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.

#### MT KORONG GOLD & NICKEL JOINT VENTURE, LAVERTON WA



Golden State has executed an agreement with Jindalee Resources Ltd whereby the contiguous landholdings of Golden State and Jindalee at Mt Korong and North Well, near Laverton, will be combined into a 50%/50% exploration joint venture. Jindalee will initially operate the joint venture.

The project area contains a sequence of rocks that include mafic metavolcanic, ultramafic, mafic intrusive and felsic volcanoclastic and metasedimentary units. The ultramafic rocks represent an extension of the unit that hosts nickel sulphide mineralization at Windarra, 22km to the east.

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A handwritten signature in black ink, consisting of a large, loopy initial 'R' followed by a series of connected loops and a final flourish.

Richard Sciano  
**Executive Director**

**31 October 2008**