



**QUARTERLY ACTIVITIES REPORT**

For the Three Months ended 31 March 2009

**HIGHLIGHTS**

The first quarter of 2009 has been an exciting and busy time for Golden State Resources with the commencement of drilling operations on Paradox Basin #2

- **Paradox Basin #1**

Analysis of gas recovered from testing the Paradox Basin #1 in December has shown the completed zone in the Upper Ismay Formation contains a high quality sales gas. Commercial production from Paradox Basin #1 is expected on recompletion of the well.

- **Paradox Basin #2**

Ten significant gas shows have been encountered in Paradox Basin #2 in the prospective Upper Pennsylvanian section. Unit Rig 234 commenced drilling on February 13<sup>th</sup> 2009 with operations running smoothly and ahead of schedule. The well is currently at 12,956 feet (3949.0m) in the Barker Creek Formation. Drilling operations are being directed by F.J. Brown and associates a Texas based subsidiary of AGR, one of the world's largest drilling management companies.

- **Independent Audit**

An independent evaluation by RPS Energy, completed in March, confirmed Golden Eagle as a new field gas discovery with significant upside potential.

- **Well Funding**

The company raised \$5.136 Million through share placements during the quarter. The funds will contribute to operational costs of the Paradox Basin #2 appraisal and development well.

- **Gold Assets**

Continued evaluation of information regarding the mineral assets is progressing with a view to identifying the best course of action for the projects.

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

### Paradox Basin #1

Hydrocarbon gases recovered from the Upper Ismay Formation production zone are high quality sales gas with low impurities and a high heating value. Gas samples recovered from the productive interval in the Upper Ismay Formation in Paradox Basin #1 during flow testing in December 2008 were analysed by Enviro-Chem Analytical Industries. The gas is primarily Methane (91.925%) with ethane (3.458%) and propane (2.789%) the balance comprises mostly other hydrocarbon gases (1.565%). Non hydrocarbon gases are negligible with carbon dioxide (0.196%) and nitrogen (0.067%). The gross heating value is 1115.5 Btu per standard cubic foot.

The good gas quality in particular the lack of inerts and impurities means that any produced gas will require minimal processing and as gas is marketed on the basis of the heating value the Ismay Gas will command a 10% premium per cubic foot. Initial indications from the chromatograph on Paradox Basin #2 are that the gas in the show zones is of a similar composition.

Golden State Resources expects to source a completion rig when operations are completed on Paradox Basin #2. The rig will then be used to complete Paradox Basin #1 to a production ready status, ready for tie-in to the Williams gas distribution pipe line.

### Paradox Basin #2



Figure 1: Paradox Basin #2

Unit Rig 234 commenced drilling Paradox Basin #2 on 13<sup>th</sup> February 2009 (Figure 1). The well is currently at 12,956' (3949M) and is being conditioned for logging the Upper Pennsylvanian section. All stages of the drilling operation to date have been completed ahead of schedule. Current operations have taken 71 days in comparison Paradox Basin #1 took 160 days to reach a similar depth. The well is currently ahead of schedule and within the budget. Operations are expected to continue for approximately 30 days after setting 7" casing.

Ten significant zones with gas shows have been encountered in the Upper Pennsylvanian in Paradox Basin #2. Shows are summarised in Figure 3 and Tables 1 and 2. Four major objective zones have not yet been tested they include the Lower Barker Creek Formation, and Pinkerton Formation, Alkali Gulch and Leadville Limestone. The Lower Barker Creek and Pinkerton formations, both of which displayed strong gas shows in the previous well were unable to be effectively tested in Paradox Basin #1 due to mechanical issues associated with setting the liner hanger, and long term exposure to salt.

Paradox Basin #2 is located 1 mile south-south-west of the Paradox Basin #1 discovery well (Figure 2). This positions the well higher on the Golden Eagle Structure, with the Leadville limestone anticipated some 800' higher than Paradox Basin #1. The more crestal position also places the well closer to the bounding fault and in a zone of higher flexure. Faulting and flexure should contribute to increased fracture porosity as observed in the on-trend Lisbon Field, where porosity and permeability is associated with dissolution along fractures and faults.

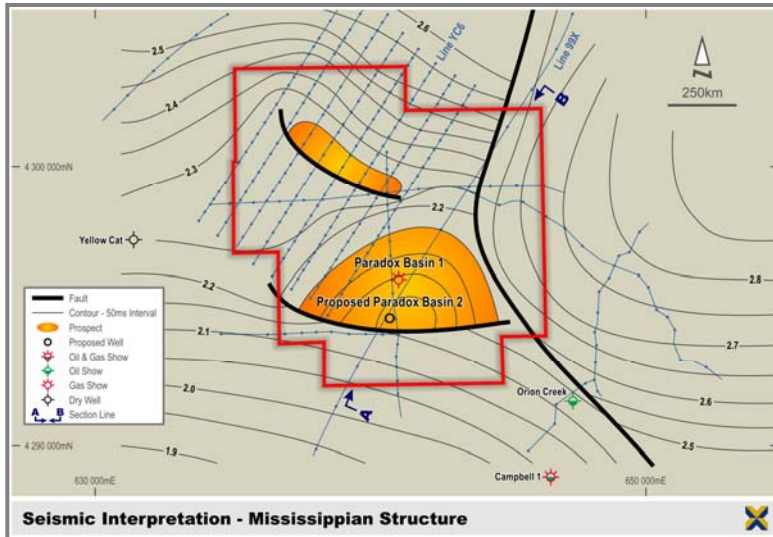


Figure 2: Mississippian Structure

During drilling Paradox Basin #2 has encountered a much higher sandstone content than observed in Paradox Basin #1.

The preliminary interpretation is that Paradox Basin #2 is drilling along a long acting basin hingeline. The positive result of the more sandstone rich section is improved reservoir quality with cuttings displaying good porosity, associated with several of the gas shows.

In the event current show zones represent commercial gas the well will be completed with a 4½” production casing prior to testing. Logging of the Upper Pennsylvanian is expected to be completed this week and will include extensive measurements of reservoir pressure and gas sampling from existing show zones.

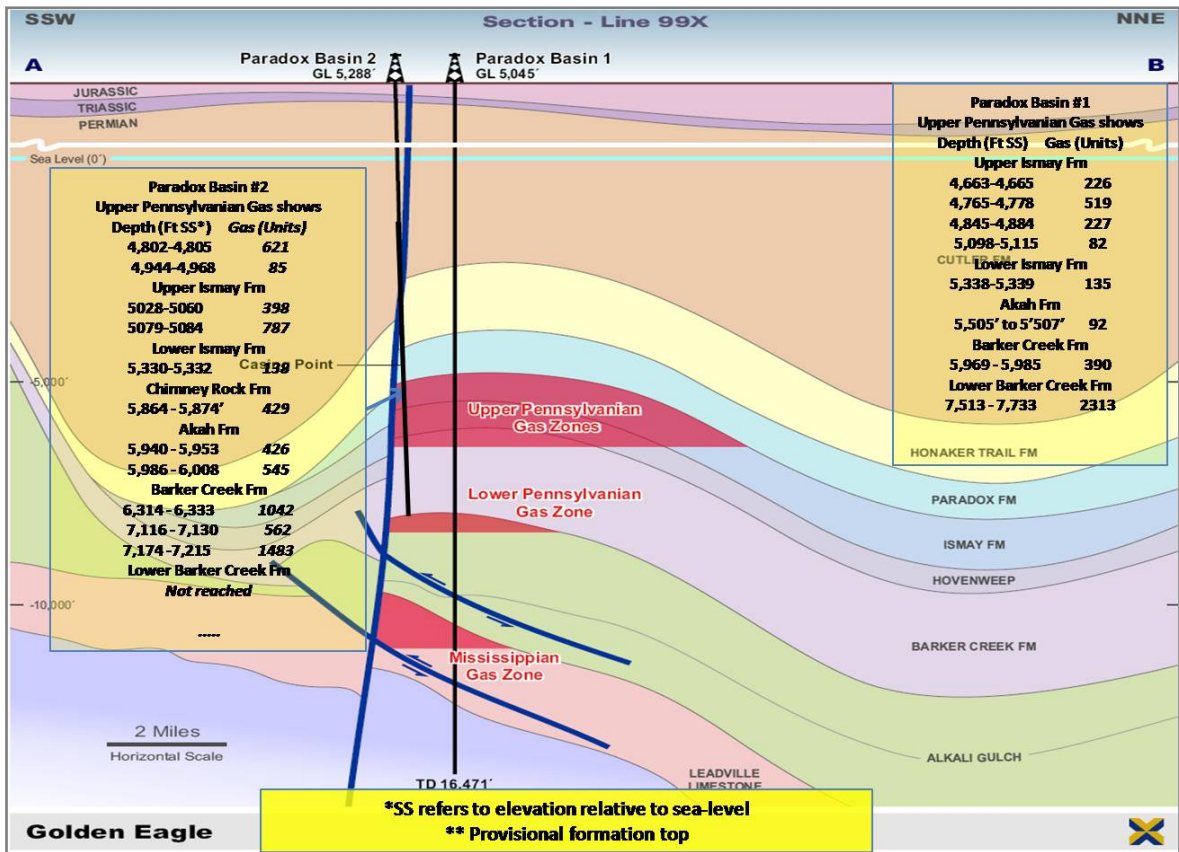


Figure 3: Section along seismic line 99X with shows

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Formation	Geological Age	Paradox Basin #1		Paradox Basin #2	
		Depth (feet)	Result	Depth (feet)	Result
Paradox	U. Pennsylvanian	9,040	No shows	9,740	Gas shows
Upper Ismay	U. Pennsylvanian	9,744	Gas shows	10,270	Gas shows
Lower Ismay	U. Pennsylvanian	10,006	Minor gas show	10,560	Gas shows
Chimney Rock	U. Pennsylvanian	10,279	Minor gas shows	10,986	Gas shows
Akah	U. Pennsylvanian	10,528	Gas shows	11,200	Gas shows
Barker Creek	L. Pennsylvanian	11,016	Gas shows and major gas interval	11,488	Gas in three zones and minor oil shows
Alkali Gulch	L. Pennsylvanian	12,960	Major gas interval	13,220	Not reached
Pinkerton	L. Pennsylvanian	15,280	Major gas interval	14,840	
Leadville Limestone	Mississippian	15,573	Gas Shows	15,133	

TABLE 1: COMPARATIVE GAS SHOWS

Show	Formation	Thickness Ft	Result Units	Comments
1	Paradox Fm	4	621	Gas show in possibly fractured zone
2	Paradox Fm	24	82	Gas show in good porosity sandstone
3	Upper Ismay	32	398	Gas show in fine grained sandstone
4	Upper Ismay	5	787	Good gas show in good porosity sandstone
5	Chimney Rock	10	459	Gas show in good porosity sandstone
6	Akah Fm	13	426	Gas show in good porosity sandstone
7	Akah Fm	22	545	Good gas show in porous sandstone
8	Akah/Barker	19	1042	Good gas show in mixed lithology
9	Barker Creek	14	562	Gas show in limestone and sandstones
10	Barker Creek	41	1483	Good gas show in limestone

TABLE 2: PARADOX BASIN #2 GAS SHOWS

### INDEPENDENT AUDIT OF GOLDEN EAGLE

Golden State Resources commissioned an independent audit of the Golden Eagle gas field by RPS Energy, which was completed in March. RPS Energy is a globally recognised consulting group which provides services to the energy sector. The audit confirmed Golden Eagle as a new field gas discovery with significant upside potential.

Hydrocarbon in place estimates were prepared in accordance with SPE/WPC/AAPG/SPEE Resources Management System (PRMS, 2007).

The review concluded appreciable discovered gas initially in place (GIIP) estimates within the Ismay and Barker Creek Formations as summarised below. In addition there is updip potential in the Alkali Gulch and Leadville Limestone.

Following drilling and evaluation of the Paradox Basin #2 well Golden State Resources will have a further revision of the reserves conducted. The full RPS Energy report has previously been lodged with the ASX.

	Discovered GIIP (Billions standard cubic feet)		
Formation	Low Estimate (P90)	Best Estimate (P50)	High Estimate (P10)
Ismay	8.1	46.7	169.0
Barker Creek	6.9	32.2	138.0

TABLE 3: DISCOVERED GAS-INITIALLY-IN-PLACE

	Undiscovered GIIP (Billions standard cubic feet)		
Formation	Low Estimate (P90)	Best Estimate (P50)	High Estimate (P10)
Alkali Gulch	9.3	29.7	90.0
Leadville	3.0	10.0	21.4

TABLE 4: UNDISCOVERED GAS-INITIALLY-IN-PLACE

#### WELL FUNDING

The company has raised \$5.136 million during the quarter through placements and a share facility. The funds are being utilised on Paradox Basin #2 drilling costs.

The company entered into a 3 million dollar share facility with Manly investments. Full details were lodged with the ASX on January 7th and shareholders approved the facility on 6<sup>th</sup> February. Please refer to those documents for further details on the share facility agreement.

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Figure 4: Paradox Basin

## THE PARADOX BASIN

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 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.



Figure 5: Williams gas Transmission Pipe location

## 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), discoveries can be rapidly commercialised with cash flow expected within months of success.

Permitting for the gas pipeline connector is expected to be granted on confirmation of commercial production rates. The connector will link Paradox Basin #1 and Paradox Basin #2 to the Williams pipeline. It is proposed to run the gas connector along the existing Water Pipeline Right-of-Way.

The current schedule is to complete Paradox Basin #2 during May with testing to follow in June or July depending on rig availability.

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.

#### **GOLD ASSETS**

The Leonora Project is located approximately 25km east of Leonora within the Eastern Goldfields Province of the Archaean Yilgarn Craton in the N-S trending Mertondale shear zone. The Mertondale shear zone links two major crustal structures, namely the Keith-Kilkenny Tectonic Zone and the Celia Lineament. Shears and lineaments play host to the Sons of Gwalia Mine (6Moz), Tarmoola Mine (4Moz), Thunderbox Mine (2Moz) and the Darlot-Centenary (3Moz) gold mines and highlight the potential of the Leonora project area to potentially delineate a significant resource.

The England project is located approximately 15km SSW of Laverton. The project area is west of the Laverton Tectonic Zone and geologically consists mainly of N-NE striking mafic dominated greenstone material and felsic intrusive bodies. Gold mineralisation in the area is related to structural elements with examples including the ~2Moz Granny Smith Mine, 7.1Moz Wallaby Mine, +5Moz Sunrise Dam Mine, and a host of smaller mines and deposits. The Company has delineated two prospect areas; Sons of England and Goat Creek and drilling undertaken by the Company has returned values up to 4m @ 5.6g/t from 45metres.

The company is currently reviewing its gold and mineral assets.



Richard Sciano  
**Executive Director**

**30 April 2009**

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