

ASX Company Announcements

Proactive Investors Q&A with CEO® Golden State Resources Limited Executive Director Richard Sciano & Chief Geologist Rick De Boer



GOLDEN STATE RESOURCES LIMITED



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Title: Proactive Investors Q&A with CEO® on Golden State Resources & Paradox Basin #2 Well, Golden Eagle Prospect, Grand County, Utah

Interview transcript:

Proactive Investors

What is the current position of Paradox #2 Well?

Chief Geologist Rick de Boer

Paradox Basin #2 is currently at 12,226 feet within the Barker Creek Formation and is drilling ahead at between 7-9 feet per hour, with no new shows overnight.

Proactive Investors

Golden State Resources is currently drilling Paradox Basin #2 well in Utah. Can you provide some background on what attracted Golden State to the Paradox Basin, the production history of the Paradox Basin and the status of the Paradox #1 wildcat well drilled in 2006/07.

Rick de Boer

Gulf Canada owned the rights to the Paradox exploration leases in the 90s and when Gulf Canada exited the US due to low oil and gas prices Eclipse Exploration acquired the leases off Gulf Canada in 2000. GDN entered into a farm-in agreement with Eclipse to acquire the rights and to explore on leases held by Eclipse. GDN received an independent geophysicists review of the prospect as part of its due diligence enquiries and the company was excited by the upside potential of the prospect.

The Paradox Basin is richly productive and is currently home to 171 oil and gas fields. 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.

Well known fields include the Greater Aneth field, which has produced in excess of 439 million barrels of oil and 384 billion cubic feet of gas and the Lisbon field, which has produced in excess of 51 million barrels of oil and 781 billion cubic feet of gas. Smaller fields, such as Desert Creek, Bug and Ismay have cumulative productions up to 10 million barrels of oil and 1 billion cubic feet of gas.

Proactive Investors

What key changes have been made with the drilling of Paradox #2?

Executive Director Richard Sciano

Paradox Basin #2 is being drilled with a modern top drive rig, 1000 horsepower and supervised by FJ Brown & Associates, an affiliate of AGR, one of the largest drilling supervision companies in the world. The company is seeing significant benefits both in terms of reduced costs and better drilling management.

Operations have continued to plan with the well currently approximately 19 days ahead of schedule and under budget.

Proactive Investors

How far away from Paradox #1 is Paradox #2 being drilled? What is the reasoning behind the selection of where to drill Paradox #2 well?

Rick de Boer

1.6 kms. Paradox #2 is located to more optimally test the crests of Pinkerton Trail and Leadville Formations as key gas targets. The placement of the current well is already uncovering gas within structures associated with higher porosity and fractured sandstone.

Proactive Investors

Recently, oil consulting independent major RPS Energy Group indicated that there is a significant potential gas resource at Golden Eagle in the Paradox Basin. A mid-case estimate for Gas In Place by RPS Energy Group would be 118 billion cubic feet (Bcf). In perspective, the total new field gas reserves discovered in the USA for 2007 was 796 Bcf. For a company with a market capitalization of under \$50 million, this is heady stuff. Finding gas in the Paradox Basin has frustrated many, and been a windfall for a few. What are your expectations and timeframe?

Rick de Boer

Our expectations are to complete drilling the well within the next 30 days. Testing of existing gas shows in PB # 2 is scheduled to take place when casing is set at @ 13,200 feet, and this is expected to occur within the next 10 days. Given the significance of gas shows already achieved in the Ismay and Chimney Rock formations, we will seek an updated 'discovered gas initially in place' resource estimate from RPS in relation to the significant new gas zones in the Ismay and Chimney Rock formations. RPS Energy will be involved in the further testing and evaluation of gas flows.

Proactive Investors

The 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 9 kilometres of this pipeline. The Williams pipeline (Transco & Northwest) has storage capacity of 230 billion cu. ft and serves about 30 million homes in the US. What is the estimated capital expenditure (CAPEX) for connecting to the pipeline?

Richard Sciano/Rick de Boer

GDN has received offers from US gas gatherers to cover all CAPEX expenditure to connect to the Williams pipeline. Once commercial flow rates are established, the gas gatherers would build own and operate the pipeline and its connections.

Proactive Investors

Currently, Paradox # 2 has had gas shows in all four gas formations it has drilled to date. The company must be feeling pretty chuffed with the results to date? Care to comment on the gas shows found, the porosity and when an announcement is expected on the net payzone thickness?

Rick de Boer

I am very encouraged by the drilling results achieved so far. They are as good as it gets and every indication we have is positive. We are very buoyed by the results.

PB#2 is testing the formations at optimal points and we seem to have a lot of gas associated with sandstone based porosity. Results from the Chimney Rock formation are particularly good, where gas has flowed from near shore marine sandstone bars that were not encountered in PB # 1.

Chimney Rock may well contain a new reservoir not found in PB # 1, sealed by shale with good porosity from sandstone bars within that formation.

Net pay zone thickness will be determined after logging is done. This will occur after drilling has been completed.

Proactive Investors

Soon drilling will get down to the Alkali Gulch and Pinkerton formations in the Paradox #2 well, where major gas intervals were encountered in the Paradox #1 well. Are you as encouraged by the prospects for the Alkali Gulch and Pinkerton formations? When is it likely based on drilling rates to date, that these formations will be reached?

Rick de Boer

Yes I am very encouraged by what lies ahead for the Alkali and Pinkerton zones. The well is positioned to optimally test these zones. 7 inch casing needs to be set at @ 13200 feet before drilling on to the deeper formations.

Proactive Investors

Most investors will want to gain some idea as to what all these gas shows in Paradox #2 in the four formations are indicative of, both at the current stage of drilling, and in the bigger picture?

Rick De Boer

The significance of the gas shows in PB#2 varies. For example, the Ismay shows we have gas lower in the structure than in PB#1, which indicates a larger gas column. At this stage, the upper gas shows have similar C1/C2 ratios, and we may be dealing with a continuous gas column linked to PB#1.

Other gas shows in PB#2 are higher in the structure and are associated with higher porosity than in PB#1.

Proactive Investors

In earlier announcements, there were references to: "connection gas", "trip gas", "porosity", "good quality sandstone reservoir" and "new potential gas zone". Care to elaborate for the less technical of investors?

Rick de Boer

Connection gas is formation gasses liberated while making a connection of the drill pipe. Trip gas is similar but is formation gas that enters the mud during trips. Porosity is the spaces between the constituent grains. Good quality sandstone reservoir is a reservoir with good porosity and permeability.

Proactive Investors

Golden State has 139.1 million listed options with an exercise price of 20 cents with an expiry date of 30 June 2009. Stubbornly, the share price has yet to broach 20 cents. How important are the options exercise in the future funding and evaluation of gas shows at Paradox #2? 5

Richard Sciano

While Golden State would like the options exercised for its continuous drilling programme, the directors believe the current share price is not indicative of the true value of the company with all this potential. We have also seen a significant increase in debt funding opportunities as a result of drilling results to date.

Proactive Investors

Monetising the gas shows found in Paradox #1 and Paradox #2 is all important for GDN shareholders. Is there a timetable for analysis of the data from the wireline logs from the latter once all formation targets have been reached and evaluation of both wells vis a vis future production? How long do you envisage it would take for Golden State to commence production from the Paradox wells?

Rick de Boer

Productivity can only be assessed when testing is complete, however the presence of hydrocarbons can be established from logging. The logs could be available within 15 days. We expect to complete the well within 30 days. Testing would occur within 60 days after completion of the well. At this juncture, the connector pipeline would need to be built over a 60-90 day period.

Proactive Investors

How long do you envisage it would take for Golden State to commence production from the Paradox wells?

Richard Sciano

Approximately 60 days after commercial flow rates are achieved.

Proactive Investors

Can you indicate whether there is a strategy to drill Paradox Well #3, or beyond? If so, when would this likely occur?

Richard Sciano

Placement of PB # 3 will depend on which zones are confirmed as producing zones and these zones will be targeted once PB #2 is fully analysed. We anticipate drilling permits for future wells will be obtained within a few months after we apply for them.

Proactive Investors

Based on valuations of one or two companies with oil/gas assets in Utah through acquisition and sale, it is possible to infer a significantly higher value on Golden State Resources based on RPS Energy Group's independent valuation. Care to comment?

Richard Sciano

Once testing and production is established, the upside will become apparent to the market.

Richard and Rick, thank you for participating in this Proactive Investor Q&A *with* CEO®.

For further information on Golden State Resources Limited visit www.Golden State Resources.com or call Richard Sciano + 6 08 9381 9522

For further information on Proactive Investors visit www.proactiveinvestors.com.au and its global investor community.

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