



GOLDEN STATE RESOURCES LIMITED

**ASX ANNOUNCEMENT
1 FEBRUARY 2010**

DRILLING UNDERWAY AT PARADOX BASIN # 3 IN GOLDEN EAGLE GAS FIELD, UTAH, AS DEBT FUNDING AGREEMENT SECURED AND DISCOVERED GAS INITIALLY IN PLACE INCREASES

KEY POINTS:

- Drilling of the Paradox Basin # 3 production well in Utah has commenced, with drill time expected to be less than 55 days,
- Cost estimate for well is AU\$5.5 million, which is significantly lower than the previous wells (PB#1 and PB # 2) due to target in the Ismay Formation being at a shallower depth,
- Discovered gas initially in place for the Ismay Formation has increased to 9.0 billion standard cubic feet following the successful recovery of gas on test from the Ismay Formation, and
- Strategic debt funding agreement executed, the first by the Company.

US focussed oil and gas company Golden State Resources Limited (**ASX: GDN**) (“Golden State” or “the Company”) has commenced drilling at its Paradox Basin # 3 (PB#3) production well, its third in the highly productive Paradox Basin region of Utah, as the Company increases the discovered gas initially in place (GIIP) to 9.0 billion standard cubic feet and secures a strategic debt funding agreement

Drilling of the PB#3 production well commenced on schedule on 27 January 2010, with the production zone in the Ismay Formation expected to be reached within 55 days.



Rig 234 PB #3

Debt Funding Agreement Executed

Debt funding agreement for PB# 3 has been executed. Under that arrangement, the Company will receive AU\$2.5 million on 1 February 2010, with an option for an additional advance of AU\$2.5 million as agreed by the parties.

Golden State Resources Managing Director, Mr Richard Sciano, believes the securing of the debt funding agreement is an important milestone in the development of the Paradox Basin.

"This is a significant new achievement for Golden State. It is the first occasion the Company has secured debt funding for its Paradox Basin drill operations, and it reflects increased commercial confidence in this project," said Mr Sciano.

The principal amount of the loan is AU\$2.5 million dollars, for a term of six (6) months at 8% interest during the term. The lender is Social Investments Pty Ltd ("Lender"), and the loan is secured by a fixed and floating charge over assets of the company. The loan may be repaid at any time before the term expires.

There is an establishment fee of AU\$187,500 and 5 million GDNOA options expiring 30 Nov 2010 with a 12 cent exercise price. The lender has a first right of refusal to participate in any equity fundraising offered during the term to the extent permitted by the Corporations Act and the ASX Listing Rules in the circumstances, at a price that is at least 80% of the average Market Price of the Shares on ASX over the last 5 days on which sales in the Shares were recorded before the day on which the issue was made or before the date of the prospectus, as the case may be.

"Golden State anticipates it will be able to rapidly expand production from the Golden Eagle Gas Field pending the results from PB# 3," Mr Sciano added.

"Initially the Golden Eagle Gas field will be developed with further drilling of the Ismay Formation involving shallower wells which are expected to be cheaper and faster to complete."

Successful Recovery of Gas from PB# 2 Increases GIIP Estimate

As previously announced (ASX announcement 26 November 2009), further testing of the Paradox Basin # 2 well took place which resulted in the successful recovery of gas from that well.

Those tests and petrophysical data were independently evaluated by RPS Energy, a world leader in gas field analysis. As a result of their independent evaluation, RPS increased its low estimate of gas-initially-in-place to 9.0 Billion standard cubic feet of gas in the Golden Eagle Gas field.

Results of the revised Independent estimates for the GIIP in Golden Eagle gas field are shown below.

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

Existing Gas Production from the Ismay Formation

The Ismay Formation is the shallowest gas producing zone in the Paradox Basin and it is the key production zone, accounting for 84.9% of oil and 27.6% of gas production. Gas produced from Ismay Formation has a high heating value and requires minimal treatment prior to delivery to the Williams gas pipeline, located six miles from PB#2. The Williams gas pipeline transports approximately 12% of daily US gas consumption.

About RPS Energy

RPS Energy (part of the RPS Group) is a leading, multi award winning energy consultancy firm which provides technical, commercial and project management support services in the fields of geoscience, engineering and HS&E to the energy sector. RPS Energy operates from regional offices in Europe, North America, Australia and Asia. For further information about RPS Energy please visit: www.rpsgroup.com



Richard Sciano
Managing Director

About Golden State Resources

Golden State Resources Limited is an ASX-listed public company with headquarters in Perth, Western Australia. Floated in 1996, the Company is primarily focused on oil and natural gas exploration in the USA and mineral projects in the Eastern Goldfields region of Western Australia.

Website: www.goldenstate.com.au

About 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. The potential for more hydrocarbon reserves is thus enormous. Over its history, the Paradox Basin has produced 500 million barrels of oil and 3.5 trillion cubic feet of gas.

Even at current prices that equates to approximately US\$57 billion that the area has already produced, with a similar amount again estimated still to be recoverable.

The producing fields in Paradox Basin run along the same northern/southern producing trend plain, notably, the Lisbon Field (which is 64 km to the projects south and has produced 50 million barrels of oil and 780 billion cubic feet of gas), the Greater Aneth Field (150 km south with production of 385 million barrels of oil).

