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30 April 2013

Company Announcements
Australian Securities Exchange Limited
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ASX Code: BUR

Burleson Energy Limited
March 2013 Quarterly Activity Report

Summary

- Production boost from the Truchard #2 Horizontal Development (T2H) well as frac sleeve (FS) 6 was opened.
- Activity for the quarter focused on producing and monitoring the T2H well, while various changes were made to the ñplumbingò of the well.
- The aim is to identify, and rectify if possible, the relatively high rates of produced water.
- After production from FS 1 to 5 was monitored for a period, FS number 6 was opened resulting in a significant increase in gas and condensate (and water) production.
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- Current wet gas and condensate production from the companyôs producing wells provides revenue well in excess of administration and operating costs.
- Prospective Midway and Navarro shales identified in BURôs area.
- Burleson board reduced to three members.
- Cash balance at 31 March was A$2.26 million.

Activity

T2H well

During the March 2013 quarter, and up to the date of this report, Burleson Energy (BUR) continued to make gradual but significant progress in understanding the performance of the T2H well. By the end of the quarter the well was producing at good rates, thereby providing healthy revenue for BUR.

While the monitoring of the well is a drawn-out process, BUR believes it is necessary and the T2H well is critical to the potential for development of the Heintschel field, a significant gas and condensate discovery made by BUR, AKG and partners in Colorado County, South Texas, USA.

Virtually all activity in the quarter was targeted at monitoring the T2H well while adjusting the flow parameters and monitoring its performance ï in particular to gain an understanding of the source of excess water.

History

The T2H well is located 785 metres from Burlesonôs established producing Truchard #1 (vertical) well. T2H is the fourth well on the Heintschel gas condensate field and is the first horizontal development on the field.

The T2H well reached its total depth of 13,580 feet (4,139 metres) including a horizontal section 2,600 feet (792 metre) long on 26 September 2012. The well was fracture stimulated (fracced) in the horizontal section (with 6 staged fracs) on 17 October 2012.

The drilling, fracing and completion of the well came in at around the budgeted US$6.3 million (BUR had a partial carry of its share of the original well costs). Subsequent remedial and testing work has led to an increase in the total estimated well cost to US$7.8 m. Note that production of gas and condensate is, and has been, providing revenue to BUR while this extra work is undertaken.

During the initial flow back phase (expelling drilling/frac fluids from the bore hole), the well was producing wet gas at rates greater than 5000 thousand cubic feet per day or mcf/d (which is 5 million cubic feet per day or mmcf/d) with stable rates of over 3000 mcf/d, plus associated condensate. Condensate is being produced at the same high ratio as from the Truchard #1 well. The well produces relatively large volumes of water. The ratio of water-to-gas and concentrations of chlorides are much higher in T2H than in the other 3 vertical wells suggesting an external source for the excess water, but this is yet to be confirmed.

Initial production was from all 6 frac sleeves (FS) in the horizontal section of the well (with FS 6 being the sleeve closest to the vertical section). Initial rates were as described above, but in order to be able to handle the water production, the well was choked back to a gas rate of ~1500 mcf gas/d (plus associated condensate at ~35 barrels per million cubic feet) and ~1500 b/d water.

In mid November 2012, production tubing was run into the hole enabling FS 6 to be isolated, and FS 1 to 5 to be flowed and monitored, while adjustments to the choke size were undertaken. Results were encouraging, with a gradual but distinct increase in pressure and gas/condensate production, and a decline in water production. The rates fluctuated daily but after a clean-up period, by mid-January gas was flowing at ~1630 mcf/day with 60 b/d condensate. Flowing tubing pressure (FTP) had increased to 900 psi (from ~850psi) but water has declined to ~1000b/d (from ~1600 b/d).

March quarter activity

In mid-March, production from FS 1 to 6 commenced after FS 6 was opened up. This resulted in a significant boost to production. As of late March the well was producing ~2300 mcf wet gas/day with ~68 barrels of condensate/ day and only 1200 barrels of water/day.

At these rates and current commodity prices (noting that the gas is rich in NGLs so attracts a price premium) the well is generate gross revenue of ~US$20,000 per day (~US$600,000 per month if those rates are maintained). BUR has a 39% net revenue interest plus a 1.13% overriding royalty in the well.

Gross water disposal costs are ~US$35 to 40, 000 per month.

Initial conclusions and options

1. Based on the results to date, we can now say that if all the frac sleeves had produced as well as FS 6, the well would have been a major success ï with initial flows of 7 to over 10 mmcf/d of wet gas and 200 to 300 b/d of condensate. Based on this, BUR believes there is a substantial prize still to be secured in the Heintschel field.

2. There is some evidence that FS 5 is contributing little or no production, which could be due to a blockage of some sort, so remedial work may lead to another increase in production, if that sleeve can be opened up successfully.

3. The monitoring work to date has also provided some clues as to the source of excess water.

4. It is still suspected that the fracs extended into a more saline shallow sand above the reservoir. This can be addressed by adjusting the frac regimes for future horizontal wells.

5. It is also possible that the thicker than expected PB 1 reservoir (the deepest of the reservoir units) has a gas water contact which has been breached by fraccing. This scenario is more problematic, but not impossible to solve. There are a number of sites on the field where the PB1 is higher in the section than it is at T2H, so horizontal wells can be drilled at those locations to avoid the water leg. It should also be possible to adjust the location of the horizontal section and to reduce the frac strengths to minimise the risk of encountering that water.

6. A development option under consideration is to drill and frac vertical development wells in those areas where the PB1 sand is likely to contain water. In other words, the Heintschel field could be developed by a combination of horizontal and vertical wells.

7. The reserves attributed to the field by DeGoyler &McNaughton (D&M) in their October 2011report are based on a development using vertical wells. 2P reserves attributable to BURôs working interests and overriding royalties in the field are 3 million barrels of oil equivalent.

8. Various options are now being considered by the partners, including attempting to unblock FS5, and of running a ñspinnerò or other tool to try to measure any differences in fluid flows between the different frac sleeves in order to gain insight into the source of the excess water.

T2H 1Q13 production

Despite various interruptions, the T2H well produced a total of 143,169 mcf gas and 5,616 barrels of condensate during the quarter.

BUR equity interests

Following two farmout transactions during the previous quarter, Burleson now holds:

- 50% working interest and an over-riding royalty interest of 1.13% in the T2H well and Truchard unit; and
- 38.83% paying interest and 39.2% net revenue interest in the T2H well.

The working interest owners in the well are now Burleson 50%, Mogal Oil and Gas 30%, AKG Energy (operator) 13.5%, other US parties making up 6.5%.

Joann #1 well

The Joann #1 well is one of Burlesonôs five producing wells (the other four are on the Heintschel field). The natural gas, natural gas liquids (NGLs) and condensate produced by Joann #1 are contained in several separate sandstone zones, which have been identified by electric logging. Initial production was from zone #2 of five prospective production zones, where zone #5 is the deepest.

Zone #3 was brought into production on 16 May 2012 with very high levels of condensate (oil). The well subsequently became clogged by waxy hydrocarbon bi-products, and stopped production on 12 September. Remedial work commenced in late October to repair a suspected leaking plug, and the well was subsequently put on pump. For most of the March 2013 quarter the well produced water with the oil, the combined fluids being collected in tanks and the oil (~30% of the mixture) then skimmed off and sold. The oil production rate was approximately 15 barrels per day. By 7 March the oil and water were being collected separately.

Once the current zone (#3) is depleted, production will re-commence from the original zone (#2) and once that zone is depleted zone #1 will be tested and produced on success.

Despite the interruptions (the well was offline for ~60% of the quarter), Joann produced a total of 704 barrels of oil in the March quarter. The small amount of gas produced is being used in the field as fuel. Burleson has a working interest of 39.4% in the Joann #1 well.

Heintschel #1, Heintschel #2, D Truchard #1

The D Truchard #1 well has been offline since late January 2013 to now due to the well being unable to sustain flow on its own. The well, therefore, is now scheduled to be put on gas lift assist in an attempt to re-start production from the well. Failing that, the well could be used as a water injection well.

Heintschel 1 and 2 were both offline for around 12 days during the quarter to more accurately measure the flows from the T2H well. All wells are produced into a central gas gathering system.

Despite the interruptions, these three Heintschel field vertical wells (BUR 38% working interest) produced a total of 28,388 mcf of wet gas and 921 barrels of condensate in the quarter.

Upcoming Plans

Burlesonôs primary focus for the June 2013 quarter is to produce natural gas and condensate from the T2H well at commercially attractive rates. This will involve remediation of the water production issue to some extent, as described above.

Additional activities will be somewhat dependent on the commercial viability of the T2H well, as well as identifying a larger partner to help fund future field development activities.

Subject to achieving successful results from this well, Burleson would expect the following activity during the June 2013 quarter and beyond:

- Continue to monitor the T2H well performance while making adjustments to the well configuration and possibly undertake surveys;
- On success, prepare overall development plan for the Heintschel field; and
- In any case, seek a larger partner or partners to progress BUR development of the Heintschel field and other projects.

Shale play identified in BUR's acreage

In February, Burleson advised that recent seismic and drilling activity by Halcón Resources (HK:NYSE) has provided encouragement that prospective Midway and Navarro (M&N) shales are present in BURôs acreage.

Halcón holds contiguous acreage immediately to the northeast of BURôs Colorado County 3D seismic (CC3D) area leases and have acquired a 3D seismic survey which ties to our seismic .

The M&N shales are located immediately beneath the Wilcox formation, which includes the Wilcox Prairie Bell sands, the reservoirs for BURôs Heintschel wet gas and condensate field. Halcón describe the M&N shales as oil prone reservoirs with significant high BTU (rich) gas and NGLs. BUR understands that two wells have been drilled in 2012 by Halcón into the M&N shales with two completions (ie discoveries).

Corporate

Burlesonôs cash position at 31 March 2013 was A$2.26 million.

Due to the prolonged period of testing T2H various cost cutting initiatives were implemented. This included reducing the BUR Board from 5 to 3 with Mr Khib Kugler and Mr Alex Sundich agreeing to step aside.

The Board is now Norm Zillman (chair), Andrew Kugler Jr and Michael Sandy(MD). The Board is very grateful to both Mr Khib Kugler and Mr Sundich for their contributions to the Board.

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Competent Person's Statement:
The information in this report that relates to oil and gas exploration results and hydrocarbon resources is based on information verified by Mr. Michael Sandy (BSc (Hons) Melbourne University), who is a petroleum geologist. Mr. Sandy is a Director of, and consultant to, the Company. Mr. Sandy has more than 30 years of experience in this discipline and he consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.