



9 January 2007

COMMISSIONED RESEARCH

Refer to Important Information on back page for details.

ASX CODES

BUR/BURO

SECURITY PRICES

\$0.20/\$0.063

CAPITAL STRUCTURE

Ord Shares	90.5m
Options (ex Aug '10 @ \$0.25)	46.1m
Total	136.6m
Market Capitalisation	\$27.3m
Other Securities	
B Class Shares ¹	75
B Class Options ¹	75
C Class Shares ²	50
Convertible Notes ³	4.0m

Notes:

¹ Convert to 120,000 shares and 120,000 options (ex Aug '10 @ \$0.25) each respectively subject to performance hurdles detailed under the section "AKG Energy Partnership"

² Convert to 150,000 shares each subject to performance hurdles detailed under the section "AKG Energy Partnership"

³ Convert to between 16m and 40m shares

FINANCIAL POSITION

Est cash	\$16m
Debt (Convertible Notes)	\$4m

AVG MONTHLY VOL.

1.03m shares (6 month avg.)

BOARD

John McAlwey (Non-exec Chairman)
Andrew Kugler (Non-exec Director)
Michael Sandy (Executive Director)

SIGNIFICANT SHAREHOLDERS

Ord Shares & Options (pro-forma)	
Kugler Family	13.4%
Directors/Consultants	9.0%
Incl B & C Class Securities	
Kugler Family	20.6%
Directors/Consultants	9.6%

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Burleson Energy Ltd (BUR)

Analyst Comment

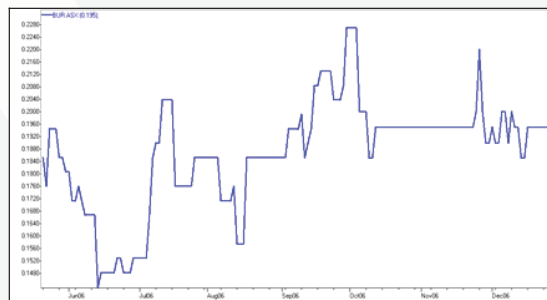
Since listing on the ASX in May 2006, Burleson has significantly expanded its portfolio of near term gas development projects in onshore Texas. An active 18 month drilling program commencing early 2007 offers good potential for Burleson to rapidly establish a production and reserves base.

Burleson is well positioned to capitalize on future project opportunities through its strong partnership with local operating company AKG Energy.

Key Points

- Burleson has partnered with Texas based independent energy company AKG Energy, securing interests in a group of onshore Texas gas development prospects offering good potential for production within a 6 month time frame.
- AKG Energy's principals are experienced oil and gas professionals with considerable US experience as explorers, producers and operators. A significant shareholding in Burleson and performance incentives ensures an alignment of interests at both a corporate and operational level.
- The Joint Venture has access to a drilling rig for up to 2 years and proposes 9 initial wells commencing in January 2007. Burleson has raised \$12.3m to meet its expenditure requirements for this expanded development program.
- The program is considered relatively low risk as it predominantly involves drilling infill development wells into existing gas fields of the Austin Chalk Formation, a prolific regional reservoir with past production of 770 Mmbbl oil and nearly 5 Tcf gas.
- Targeted initial production rates of up to 15 Mmcf/d gas and well recoveries of up to 8 Bcfe with working interests of 17.5% to 40% are significant for a company of Burleson's size.
- US energy market fundamentals are supportive for gas with predicted supply shortfalls expected to underpin prices. In its latest update, the US Energy Information Administration forecast benchmark Henry Hub gas prices to average US\$7.87/mcf in 2007 from US\$7.06/mcf in 2006. These prices are favourable for the types of opportunities pursued by the Joint Venture.

Share price performance



Source: IRESS



Introduction

Burleson listed on the ASX in May 2006 after raising A\$4m for an initial project in Burleson County. It has now raised a further A\$12.3m from the issue of shares (A\$8.3m) and convertible notes (A\$4m) to support a major expansion of project interests in onshore Texas.

An initial 9 well, infill development program is due to commence in January 2007 targeting the Austin Chalk play over 5 prospects in Burleson, Grimes, Montgomery and Brazos Counties.

This program represents a clear distinction from wildcat exploration drilling. Risks of discovering hydrocarbons are considerably lower and unsuccessful wells commonly recoup a significant proportion of capital costs.

The proposed drilling program summarized in Table 1 will cost Burleson around US\$10.8m and take about 18 months to complete. Subject to initial results and rig availability a second rig could be introduced to accelerate drilling activity.

Table 1: Burleson's Prospect Interests and Program Details

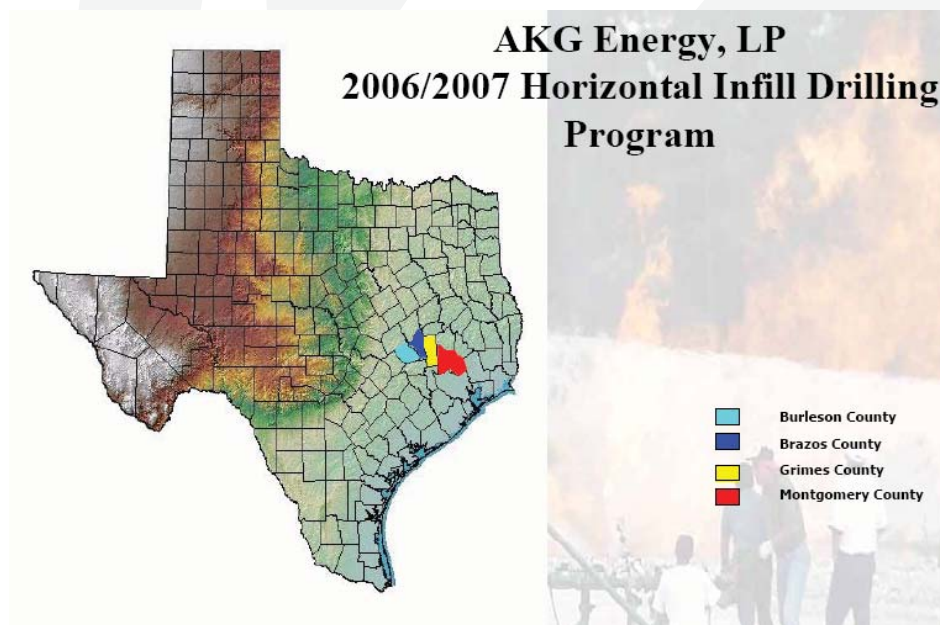
Prospect	Acres	PI	WI	NRI	Wells		BUR Initial Program Cost
					Initial Prog	Potential	
Burleson	8,133	40%	40%	30%	2	20	US\$3.6m
Champions	13,813*	20%	17.5%	13.125%	5	8	US\$5.0m
Champions II	619	20%	17.5%	13.125%	1	1	US\$1.0m
Champions III	1,362	20%	17.5%	13.125%		2	
Weir	353	20%	17.5%	13.125%	1	1	US\$0.8m
Subtotal							US\$10.4m
Management Fee**							US\$0.4m
Totals	24,280				9	32	US\$10.8m

Source: Burleson Energy Ltd

Notes: * Includes 1,949 acres with 20% WI.

** Management fee payable to AKG Energy @ US\$21,000/month.

Figure 1: Project Locations



Source: Burleson Energy Ltd

AKG Energy Partnership

Key to Burleson's entry and rapid expansion into the US energy market has been its partnership with Austin, Texas based independent energy company, AKG Energy. AKG Energy is part of the AKG Group of companies owned and run by the Kugler family who collectively have 95 years hands-on experience as explorers, operators and producers.

AKG Energy is Operator of drilling operations and will provide various technical, management and administration services to the Joint Venture.

AKG Energy has a significant shareholding in Burleson and strong performance incentives tied to well results and Burleson's share price. This structure aims to align the short and long term interests of both companies. Andrew Kugler Jr, a principal of AKG Energy is on the Board of Burleson.

The Kugler Family was initially issued 5.4m shares and 2.7m options in Burleson in return for offering Burleson ground-floor terms (no premium payable) on the Burleson County prospect. Up to an additional 5.4m shares and 5.4m options may be issued if Burleson trades at a weighted average price above 28 cents per share over a 30 day trading period or after Burleson's share of production reaches 64,000 boe. The latter is equivalent to BUR's share of production averaging about 1 mmcf/d gas for 12 months.

The Kugler Family will receive 7.5m Burleson shares as consideration for the most recent suite of project acquisitions and an additional 750,000 shares will be issued for each well achieving total production of 1.3 Bcf, with up to a maximum of 7.5m shares being issued.

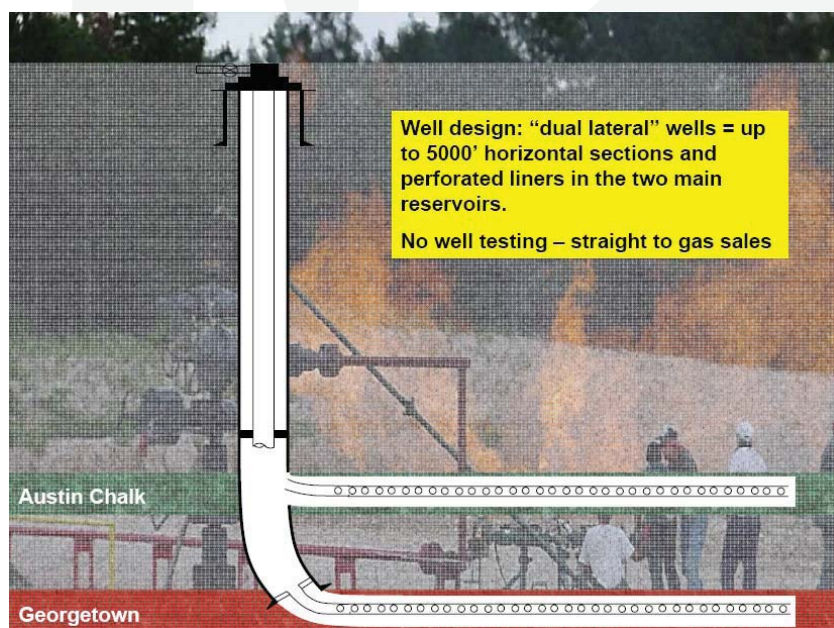
Development Program Background

The Joint Venture is aiming to achieve commercial outcomes through successful gas field development using a combination of modern drilling techniques and geophysics (seismic).


The Austin Chalk limestone and underlying prospective reservoirs are generally located at depths below 9,000 feet and have little natural porosity and permeability. These reservoirs rely on vertical fracturing and effective drilling and completion techniques to become productive. Horizontal drilling technology has proved highly successful in enhancing flow rates and well recoveries from these reservoirs by intersecting more fractures in the well bore.

The Joint Venture proposes horizontal drilling involving both single and dual laterals, each up to 5,000 feet long. Figure 2 illustrates a dual lateral within the Austin Chalk and underlying Georgetown reservoirs. In this case the resultant production would be commingled at the surface.

Figure 2: Horizontal Drilling and Completion



Source: Burleson Energy Ltd



The Joint Venture will also target zones of enhanced fracturing which have been identified from AKG Energy's proprietary model developed over many years and incorporating its considerable database, knowledge and expertise. Until now, leasing difficulties have prevented drilling at many of the identified well locations.

Initial gas production rates of up to 5 Mmcf/d and 15 Mmcf/d are targeted from individual wells on the Burleson and Champions prospects respectively. Such results would be considered extremely positive and support capital cost payback periods generally measured in months. Well analogues indicate a typical successful well will have high initial production followed by a steep decline and continue to produce at modest levels for many years.

Infrastructure is in place in all prospect areas with extensive pipeline development with ample excess capacity around the planned drilling locations. Operating costs are minimal reflecting attractive onshore cost structures.

Board & Key Personnel

Burleson's Board has a good blend of technical, commercial and legal experience that make a good fit with the current and future ambitions of the company.

The Joint Venture's day to day operations are managed predominately by the Kugler Family in Texas.

Board

- **John McAlwey** (Non Executive Chairman) - John is a lawyer with over 30 years experience including extensive commercial legal work and formation and management of listed public companies.
- **Dr Andrew Kugler Jr.** (Non Executive Director) - Andrew is President of AKG group of companies based in Austin, Texas. He holds Geology degrees from Yale and The University of Tasmania and has over 40 years of international and US experience including with Gulf Oil Company. Most of his career he has been an independent with his companies drilling in Australia and Papua New Guinea as well as hundreds of wells onshore USA.
- **Michael Sandy** (Executive Director) - Michael has over 30 years resource and oil & gas experience in Australia, USA and internationally. His experience includes formation and operation of oil & gas listed public companies.

Key Personnel

- **Dr Andrew Kugler Jr.**
- **Khib A. Kugler** - Khib graduated from The University of Texas with degrees in Geology and Business, and a graduate degree in Geophysics. He has over 25 years of geological and geophysical experience both internationally and in the US including 8 years with Texaco. In 2001, Khib joined AKG as Vice President of Geology and Geophysics.
- **Karras J. Kugler** - Karras graduated from The University of Texas at Austin with a degree in Petroleum Engineering. Prior to joining AKG, Karras worked at Platt, Sparks, & Associates Consulting Petroleum Engineers for 9 years as a Petroleum Engineer. Karras joined AKG in 1997 as Vice President of Engineering and Operations, where he manages all aspects of daily production and drilling operations.
- **Greigh P. Kugler** - Greigh graduated from the University of Texas at Austin with a degree in Petroleum Land Management. He has 15 years experience as a Landman in the Gulf Coast. Prior to joining AKG in 1997, Greigh worked as a company landman for Marathon Oil Company responsible for Texas, Louisiana, Arkansas, and Mississippi properties. Greigh has managed all aspects of land related activities for AKG in his role as Vice President of Land and Administration. Greigh received his Certification as a Professional Landman (Cert #5510) in 1996.

Indicative Drilling Schedule

The Joint Venture has access to a drilling rig for up to 2 years supporting an active and continuous drilling program.

Following an initial Burleson County well it is currently expected the rig will move to Grimes County to drill at least two Champions area wells. The drilling schedule summarised in Table 2 remains flexible to accommodate early results and may involve introduction of a second drilling rig.

Table 2: Indicative Drilling Schedule

Prospect	Est. First Well Spud	Reservoir Objectives	Well Targets (per well)		Est. Potential Initial Cash flow/well @ IP BUR share/month*
			Initial Prod (IP)	Reserves	
Burleson	Jan 07	Austin Chalk Georgetown	2-5 Mmcf/d + 75-200 bopd	3-8 Bcfe	A\$200-500k
Champions (Area)	Mar 07	Austin Chalk	10-15 Mmcf/d	4.4 Bcfe	A\$400-600k
Weir	H2 07	Austin Chalk Buda Georgetown	3.3 Mmcf/d + 330 bopd	2.6 Bcfe	A\$200k

Source: Burleson Energy Ltd & Sentinel Financial Group

Note: * Estimates based on received gas price of US\$7/mcf, oil price of US\$55/bbl and \$A/\$US: 0.75

Prospects

Burleson County (Burleson 40% WI)

The first Burleson County well is due to spud in January 2007 with a second well scheduled for later in 2007 following at least two Champions Prospect wells.

Both wells will be drilled as dual laterals in the Austin Chalk and Georgetown reservoirs.

Based on AKG Energy's experience in the area, initial production rates of 2-5 Mmcf/d gas plus 75 – 200 bopd and ultimate recoveries of 3-8 Bcfe are targeted from successful wells. The high side figures represent potential from a well bore successfully intersecting a zone of enhanced fracturing. Based on the above range of potential flow rates, initial cash flow to Burleson would be between approximately A\$200,000 and A\$500,000 per well.

A total of approximately 20 drill locations have been identified on the Joint Venture's leases (or on areas currently being negotiated for lease) providing numerous additional opportunities should results from the initial wells encourage.

Grimes, Montgomery and Brazos County (Burleson 17.5% WI)

Through partner AKG Energy, Burleson is acquiring a 17.5% WI in four areas of Grimes, Montgomery and Brazos County.

The highest priority area is known as Champions consisting of 15,793 acres, the majority of which is under a development agreement between AKG Energy and major US energy group Marathon Oil. AKG Energy has a strong relationship with Marathon Oil which recently invited AKG Energy to operate and participate in this development prospect given its drilling and completion expertise. Since 1997, Marathon Oil has drilled 19 production wells within the Champions Prospect, producing over 80 Bcfe.

The Joint Venture proposes to drill 6 initial infill wells in the Champions area as single laterals in the Austin Chalk Formation. Targeted initial production is 10-15 Mmcf/d per well due to expected higher reservoir pressures than Burleson County, equating to potential initial cash flow to Burleson of between approximately A\$400,000 and A\$600,000 per well. Individual well recoveries are expected to be approximately 4.4 Bcfe (of which approximately 40% is recovered in the first 6 months) consistent with results achieved from the Marathon Oil wells.

One infill development well is proposed at the Weir Prospect in Brazos County. The well will be drilled as a multi-lateral in the Austin Chalk, Buda and Georgetown Formations. Targeted initial production is 3.3 Mmcf/d gas plus 330 bopd, equating to potential initial cash flow to Burleson of approximately A\$200,000 per month. Expected well recovery for the Weir Prospect is 2.6 Bcfe.

Risks

Some factors that could negatively impact the economics of the proposed gas field developments are:

- Well performance: Flow rates and ultimate recoveries per well being lower than what is expected or considered commercial.
- Capital Costs: An escalation in drilling and well completion costs.
- Gas Price: A decline in the value of gas.

Glossary

Bcfe:	billion cubic feet of gas equivalent
boe:	barrels of oil equivalent
bopd:	barrels of oil per day
mcf:	thousand cubic feet of gas
Mmbl:	million barrels of oil recoverable
Mmcf/d:	million cubic feet of gas per day
Tcf:	trillion cubic feet of gas recoverable
Participating Interest (PI):	the amount of contribution to the drilling costs.
Working Interest (WI):	share of the lease or well.
Net Revenue Interest (NRI):	revenue share after payment of royalties applicable to the leases but before payment of operating costs.



IMPORTANT INFORMATION

COMMISSIONED RESEARCH

Sentinel Financial Group has been commissioned to prepare this independent research report and will receive a fee for its preparation.

Therefore, it would be inappropriate to provide a recommendation. However we provide an overview of relevant information to assist investors to form a view on the investment prospects of this company.

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