31 July 2013

JUNE 2013 QUARTERLY REPORT

Leyshon Resources Limited (AIM/ASX:LRL) ("Leyshon" or the "Company") is pleased to provide an update on the progress made during the second quarter of 2013.

The Company, through its wholly owned subsidiary Pacific Asia Petroleum Limited (PAPL), has commenced an accelerated exploration and appraisal programme for its Zijinshan Gas Project on the eastern fringe of the prolific Ordos Gas Basin in Central China.

PAPL has a 100% interest in the exploration phase of the Production Sharing Contract (PSC) with China National Petroleum Corporation, which has the right to back in to a 40% interest at the development stage.

The main objective of the 2013 work programme is to define a resource sufficient to delineate a third party independent resource by the end of 2013 and to submit a Chinese Reserve Report (CRR) by mid 2014.

The main components of the programme comprise drilling up to six wells, conducting eight flow tests and acquiring 300 kilometres of 2D seismic data. Three of the wells are committed and the additional three are subject to results and PSC partner agreement. It should be noted that drilling of these additional wells will be dependent on favourable results from both the testing and seismic programmes.

It should be noted that the programme remains at an early stage in the exploration and appraisal phase of de-risking the project and accordingly each well will be fully evaluated before proceeding with the subsequent well.

Flow Testing

Following the hydraulic facture stimulation of one of the target zones in well ZJS5 a free gas flow rate of 160,000 scf/day was recorded over eight hours of stable flow at a tubing head pressure of 200psi.

The initial flow rate recorded on the single zone exceeded management's internal estimate for commercial production of 125,000 scf/day.

Analysis of the results to date suggests that further flow may be possible from untested potential pay zones. Following a three week shut-in period a formation pressure test on a single zone recorded 16.5MPa/2425psi, significantly higher than that recorded in nearby wells in the same strata.

Testing of well ZJS6 was suspended due to technical issues. The well has a total depth of 2,320 metres with 80 metres of cumulative potential pay interval intersected across 15 potential pay zones. Several of the zones tested, which elsewhere in the field are dry, produced water. It has not been possible to isolate or to accurately define the source of the water nor to determine whether these are issues specific to well ZJS6 or more general to this area of the licence.

Accordingly the decision has been made to discontinue testing on the well for the time being and to focus exploration and appraisal efforts on the upcoming programme.

It is possible that the well may be revisited at later date to attempt to isolate the water and to test different zones. However very useful information on the target zones has been gathered which will be valuable for testing future well.

Drilling

The drilling of well ZJS7 has commenced at a location approximately three kilometres to the northeast of well ZJS5. Whilst torrential rain delayed the mobilization of the rig for over two weeks the extreme weather conditions are not expected to have any further significant impact on the drilling operations, which are expected to take approximately 4-5 weeks. The well has a design depth of approximately 2,100 metres and is targeting the same potential pay zones as those intersected in well ZJS5.

Seismic

Interpretation of the recently acquired 318 kilometers of 2D seismic data has been completed. Initially the results will be used to assist in locating future wells and later to assist in resource assessment. The results are also required as supporting data for the CRR submission.

Health & Safety

A total of 279,156 man hours of incident-free field operations have been achieved to date.

Exploration Period Renewal

Agreement has been reached between Company's wholly owned subsidiary Pacific Asia Petroleum Limited (PAPL) and its partner on the Zijinshan Production Sharing Contract (PSC) to extend the exploration period of the PSC to the end of 2017. The PSC is valid for 30 years and expires in 2038.

PAPL has met all the requirements for the extension and an application was submitted well ahead of the required date. The preparation for the extension commenced late last year and is expected to take several months to complete. An announcement will be made once the process has completed. It is common for extension applications, once agreed between the PSC partners, to extend beyond the date of expiry whilst the various regulatory approvals are achieved and for exploration activities to continue as normal during this period.

Gas Pricing Reform

The National Development and Reform Commission recently announced an updated nationwide gas price increase scheme. Effective from July 2013, a two-tier gas pricing system will increase the city gate prices to a range between U$13.4 per mscf to US$15.1 per mscf.

Wells ZJS5, ZJS6 and ZJS7 are located within approximately 10 kilometres of a tie-in point on the recently commissioned Lin-Lin pipeline which supplies the growing demand in Shanxi Province. Recent discussions with potential off-take partners suggest that there continues to be a shortage of locally sourced gas to feed the pipeline and as a result prices are continuing to rise.

Regulatory Reform

The State Council, China's cabinet, announced in May the abolition of the requirement for central government approval for certain project approvals, including:

The abolition of the requirement for approval from the Ministry of Commerce for entering into or modifying PSCs in the oil and gas industry and;

the abolition of the requirement for National Development and Reform Commission approval for Overall Development Plan (ODP) for gas projects with annual production of less than 2 billion cubic meters.

The abolition and decentralization of these important approvals are targeted reforms aimed at encouraging investment in the sector and accelerating gas production. These reforms will devolve the major approvals to provincial authorities which is expected to result in streamlined approvals for the Zijinshan project.

Further to these reforms the company has recently been informally advised by the Shanxi Provincial authorities that the Zijinshan Project is expected to be selected as a supported foreign investment in Lin County meaning that the project and its owners will receive some local preferential treatment including potential tax benefits.

Cash and Liquidity

The Company is well placed to carry out its 2013 exploration and appraisal programme with a strong cash position of US$40 million (unaudited), held mainly in US dollars. With 249 million ordinary shares on issue this represents approximately US$16 cents per share, A$18 cents per share and 10 pence per share.

It has a further 17 million shares available to be purchased in the current on-market share buy- back up to September 2013. The cash position does not take into account interest due nor all of the current liabilities.

The Company continues to achieve excellent liquidity in its shares, especially on the SETSqx trading platform on AIM.

Energy and Gold

The Company is now actively looking at acquisition and investment opportunities in the oil and gas sector in locations and projects where it can bring its China advantages to bear.

It is also exploring the merit of whether to separate its energy and gold businesses and will make appropriate notifications in due course.

Managing Director Paul Atherley commented:

"Whilst the project is in its early stages it is encouraging to have the government policy wind in our sails. The progressive reforms are lifting gas prices and streamlining major approvals for foreign investors.

We remain confident that if we can de-risk the project from a technical perspective we are well positioned to translate it into a commercial success."

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Background
http://www.leyshonresources.com

Leyshon was on the ground in 2003 when China opened its mining sector to foreign investment. It has been fully engaged in China since then and has its main operating office located in Beijing.

China overtook the United States as the world's largest energy consumer in 2010, however on a per capita basis it still only consumes about 25% of the energy of the most developed nations. The government has recently described the country's increasing dependence on foreign energy sources as one of the "Grave challenges to energy security".

Its main policy response to this challenge is the rapid development of domestic unconventional gas resources, with a particularly focus on the Eastern Flank of the Ordos Basin. The aim is to rapidly increase the output of unconventional gas from the currently very low levels to an annual production of 6.5 billion cubic metres by 2015.

Leyshon, along with its partner China National Petroleum Corporation, is one of small number of companies exploring for and looking to develop unconventional gas production in the Eastern Flank of the Ordos Basin.

Managing Director Paul Atherley is the Vice Chairman of the China Britain Business Council and serves on the European Union Chamber Energy Working Group.

The qualified person, Frank Fu, who has reviewed this update, has 21 years' experience in the oil & gas industry and is a member of the Society of Petroleum Engineers.

Frank is currently the Chief Operations Officer for the Company based in the Beijing office. He holds a BS in Geology and Exploration in Shanxi Mining College in Taiyuan, Shanxi. He joined Company in 2012 having spent the majority of his career at ConocoPhillips in China and on its overseas gas and oil projects.