

Quarterly Report for the Period Ending 31 March 2019

Talon Petroleum Limited (ASX: TPD) ("Talon" or "Company") is pleased to present its March 2019 quarterly report.

1. Talon Agrees to Acquire EnCounter Oil Limited

During the quarter, Talon announced that it had entered into a binding heads of agreement for the purchase of 100% of the shares in EnCounter Oil Limited (EnCounter).

The agreement with EnCounter is the second transaction executed by Talon, as the Company looks to build on its newly incorporated UK North Sea strategy. The transaction provides Talon with 100% ownership of two recently awarded, high-impact exploration licences (Skymoos & Rocket) which are being readied for farm-out.

Furthermore, the acquisition will provide Talon with access to a significant technical database, and highly experienced UK North Sea executives Graham Doré (Non-Executive Director) and Paul Young will also join the Talon team.

Overview of the EnCounter Transaction

The transaction structure between Talon and EnCounter provides Talon with access to two high impact exploration prospects in Skymoos and Rocket and the in-house expertise to mature those prospects to farm out, as well as identify further exploration targets to add to the Talon portfolio.

As consideration, EnCounter shareholders receive:

- 100m ordinary Talon shares, subject to a 12-month voluntary escrow period
- 150m Performance Shares converting to ordinary Talon shares upon the successful farm-out of the Skymoos Prospect, and Talon electing to move into the drilling phase of Licence 2363 on or before 30 September 2021
- 150m Performance Shares converting to ordinary Talon shares upon the successful farm-out of the Rocket Prospect, and Talon electing to move into the drilling phase of Licence 2392 on or before 30 September 2021

The consideration will be provided to the current shareholders of EnCounter, including Mr Doré and Mr Young.

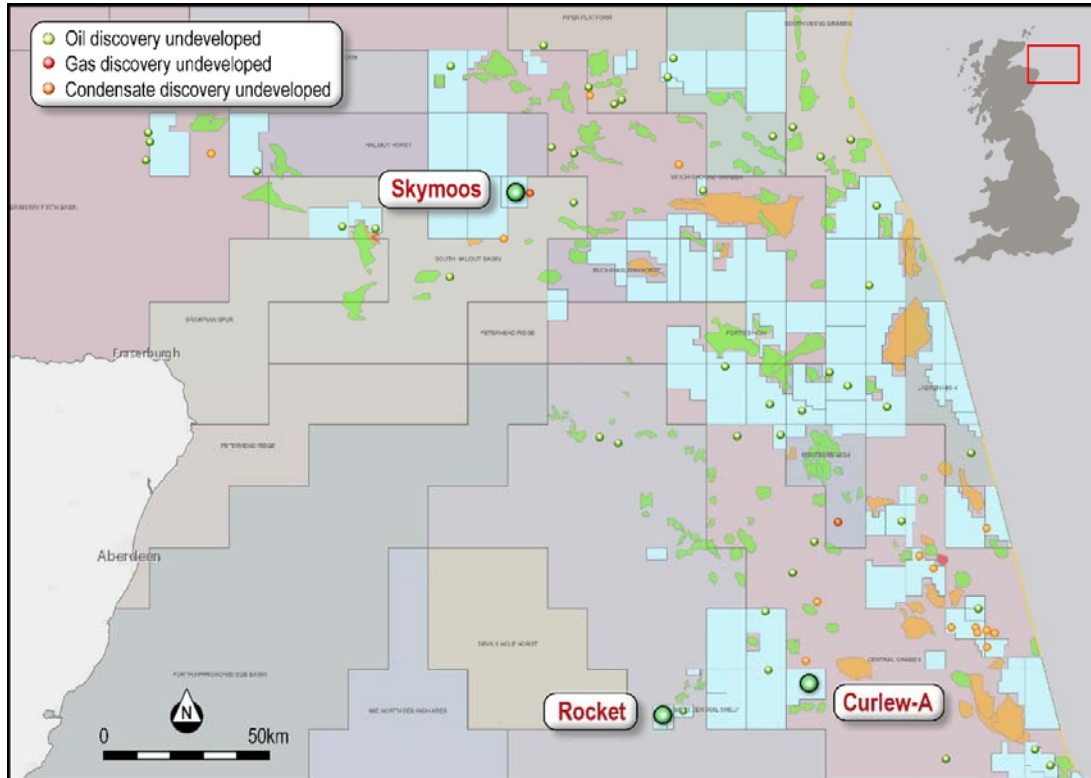


Figure 1: The Talon Petroleum UK North Sea Portfolio after acquisition of EnCounter

Overview of EnCounter Oil Limited

EnCounter is a private, UK based company formed in 2012 by key former members of the executive management team of EnCore Oil plc (“EnCore”).

EnCore was a London-listed, North Sea focussed E&P company which formed in 2005. EnCore was involved in 25 wells and was responsible for significant hydrocarbon discoveries at Breagh, Cladhan, Catcher, Varadero and Burgman, as well as several other smaller discoveries.

EnCore was acquired by Premier Oil in 2011 for £221 million.

Graham Doré (Technical Director) and Paul Young (Geoscience Manager) were foundation members of EnCore and were pivotal in the growth and development of the business up until its acquisition by Premier Oil. Mr Doré and Mr Young, along with former EnCore CEO, Alan Booth are founders of EnCounter.

Since 2012, EnCounter has acquired a small portfolio of UK Central North Sea assets, and in 2016 successfully farmed out and drilled the Bagpuss heavy oil discovery.

Mr Dore & Mr Young will join the Talon team as part of the acquisition.

The Rocket Prospect – 27mmbo (best estimate prospective resource)

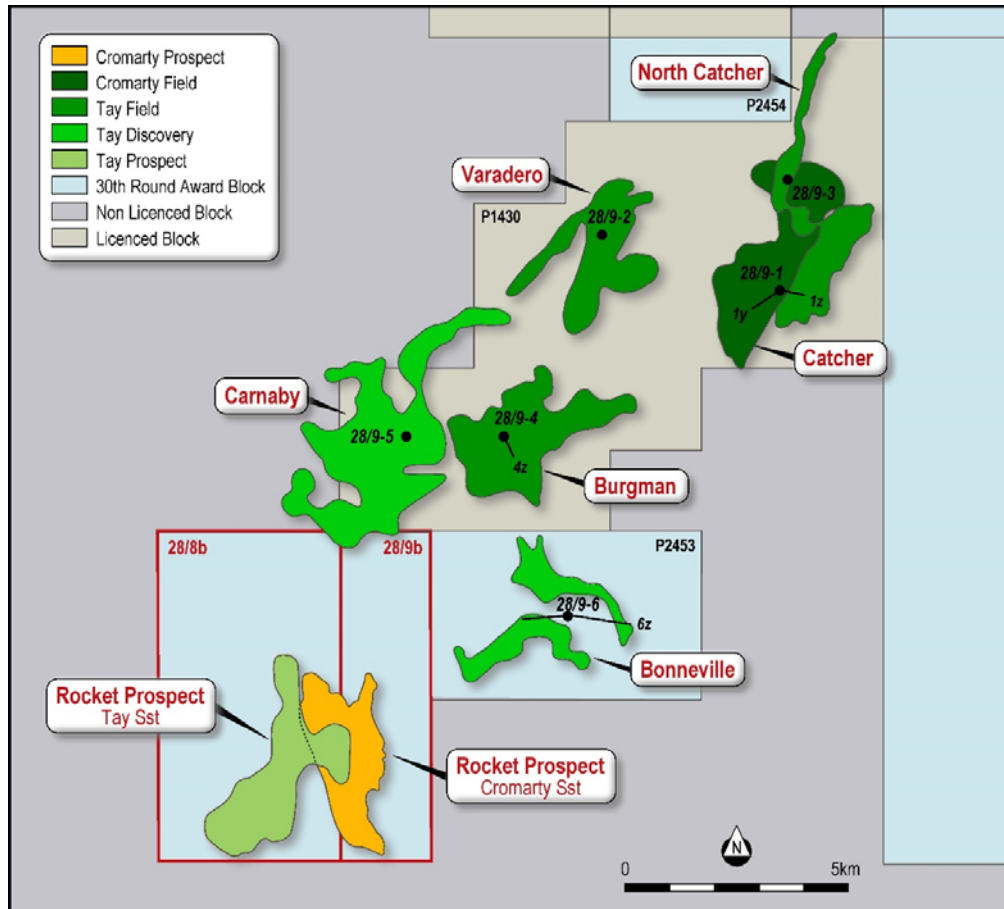


Figure 2: Map showing location of P2392 Licence (area in red) and Rocket Prospect

The Rocket Prospect lies entirely within the Innovate Phase A Licence P2392, which was awarded to EnCounter during October 2018, as part of the UKCS 30th Seaward Licensing Round. As shown in figure 2, the Licence is formed by two blocks bordering the greater Catcher Field development area, which was discovered by EnCore prior to its sale to Premier.

Located in the oil-rich western margin of the North Sea Central Graben, and adjacent to analogous discoveries of the Greater Catcher Area, Rocket is a stratigraphic Palaeocene age Cromarty reservoir prospect, with additional potential in the overlying Tay sand.

Like the adjacent discoveries to the north, Rocket has a distinctive amplitude response on seismic data. This attribute has allowed a faultless exploration program to discover a significant reserve base, which since 2017 has produced oil from an excellent quality reservoir at 70,000 bopd.

Should the Rocket Prospect be successful, the development of the well will be led by a short tieback to this recently commissioned development facility.

At Rocket, nearby field well control to the north, as shown in figure 2, and the presence of an aerially continuous 3D seismic data set, allows a good correlation of expected seal and reservoir sequences, and of estimates for both quality and thickness.

Using this offset data where publicly available, the detailed seismic mapping, and other open file reports on the area, which include the SPE presentation entitled 'The Catcher Area Development', a best estimate prospective resource of 27 mmbo has been calculated for the Cromarty Prospect level alone. Additional upside may be present in the Tay sands which are known to be present in nearby fields.

Based on normal risking methodology used in the oil and gas industry an estimated probability of commercial success for the Rocket Prospect, after all technical work has been completed, is in the range 20-30%.

The Skymoos Prospect – 107mmbo (best estimate prospective resource)

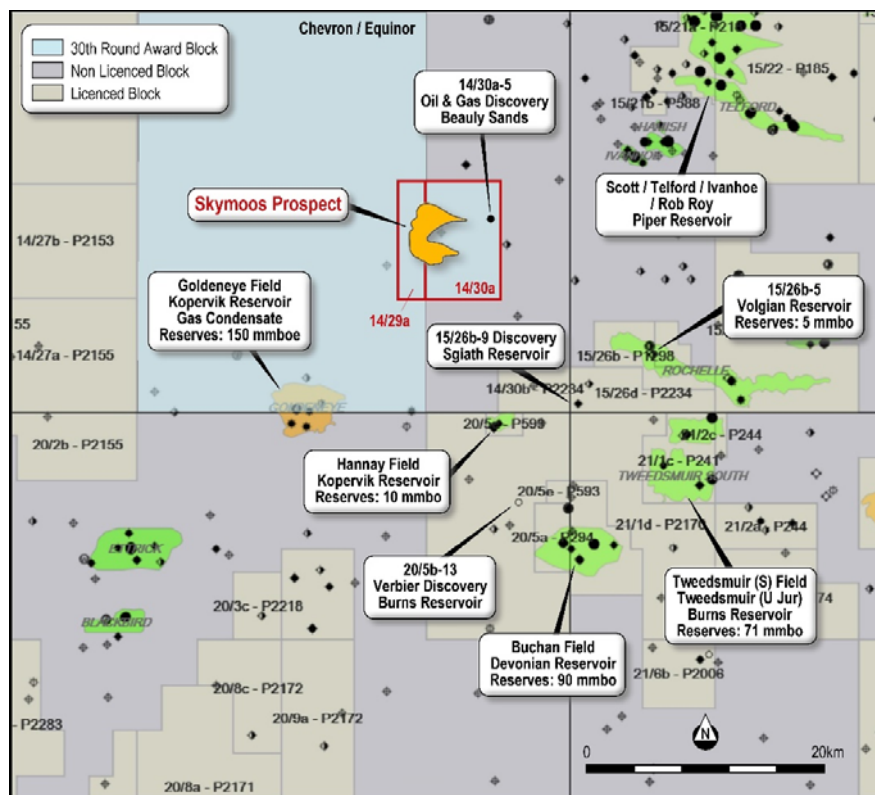


Figure 3: Map showing location of Licence 2363 (area shown in red)

Licence P2363 is an Innovate Phase A Licence which was awarded to EnCounter in October 2018. The Licence is located in the Outer Moray Firth, west of the Scott and Telford Fields, and north of the recent Equinor Burns Sandstone Verbier Discovery. The Licence, comprising Blocks 14/29a and 14/30a, contains the Skymoos Prospect, which is a structural/stratigraphic closure within Upper Jurassic age Burns Sandstone reservoir. Additional prospectivity is recognised within the underlying Claymore Sandstones.

Skymoos sits on trend with a number of developed oil and gas discoveries in an area of prolific hydrocarbon charge. The structure is dip-closed in all directions, save to the east where, from vintage well control, the Burns sand is known to be absent.

The targeted play type has proved successful in recent years at fields such as Buzzard and Golden Eagle but remains untested in the block, as adjacent vintage drilling has not had the benefit of 3D seismic data.

Where available adjacent open file field and well control (eg. Well 14/30a-5), as shown in figure 3, tied into 3D seismic data has allowed the presence of the Skymoos Prospect to be uncovered. This data allows accurate correlation of the crucial seal and reservoir intervals and an estimate of their quality and thickness. A best estimate prospective resource of 107mmbo has been calculated for the prospect.

Based on normal risking methodology used in the oil and gas industry an estimated probability of commercial success for the Skymoos Prospect, after all technical work has been completed, is in the range 20-30%.

2. Talon Shareholders Back North Sea Strategy

On March 12, Talon held a General Meeting for shareholders to approve the acquisition of Encounter.

The acquisition was approved after the Company's shareholders approved all the resolutions put forward at the meeting.

3. Corporate

During the quarter Talon successfully raised \$1.25 million through the issue of 416,666,667 shares at an issue price of \$0.003 to sophisticated investors. Chieftain Securities Pty Ltd was the Corporate Advisor and Lead Manager to the placement.

Approval for the placement was approved by shareholders at the General Meeting on March 12. After the conclusion of the meeting, Chairman, Peter Love retired as a director of the Company, with Mr Peter Stickland assuming the role of Non-Executive Chairman having been appointed by the rest of the Board.

4. Production Profile

Production from the Company's MR Olmos Project, McMullen County, Texas, USA for the quarter is detailed in the table below:

Quarter ended 31 March 2018	Gross	Net (Talon share) ⁽¹⁾
Gas (mcf)	9,385	692
Oil (bbl)	2,166	399
Total (boe ⁽²⁾)	3,730	514

⁽¹⁾ Talon's beneficial NRI share (after royalties).

⁽²⁾ Gas is converted to boe on the basis that 6 mcf of gas are equivalent to 1 boe.

5. Dispute with Lessor and US leasehold position

As advised in July 2017, the Company was in receipt of a letter from a Lessor on parts of its MR Olmos acreage disputing Talon's leasehold position on specific leases. Talon and the lessor have agreed to the release of the relevant leasehold area back to the Lessor and relevant assignment paperwork is being finalised. The area of the released acreage is approximately 2,000 acres out of a total of 3,600 acres held by the Company and holds the Hoskins Unit #1 well which produces at very low levels. Importantly, the Lessor has agreed to assume the obligation to plug the well and abandon the relevant facilities, thereby relieving Talon of this liability.

Having commenced with its focussed North Sea strategy, Talon will look to rationalise the remainder of its MR Olmos Project position, which has now become non-core.

Contact Information

For further information, please contact Matt Worner: matt@talonpetroleum.com.au

Glossary

bbl:	barrels
boe:	barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 barrel of oil equivalent)
bscf:	billion standard cubic feet
mcf:	thousand cubic feet
mmbbl:	one million barrels of oil
mboe:	one million barrels of oil equivalent

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

TALON PETROLEUM LIMITED

ABN

88 153 229 086

Quarter ended ("current quarter")

31 MARCH 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	37	37
1.2 Payments for		
(a) exploration & evaluation	(84)	(84)
(b) development	-	-
(c) production	(59)	(59)
(d) staff costs	(122)	(122)
(e) administration and corporate costs	(121)	(121)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	8	8
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(341)	(341)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
	(d) other non-current assets	-	-
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	1,250	1,250
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(83)	(83)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	1,167	1,167

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,158	2,158
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(341)	(341)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,167	1,167
4.5	Effect of movement in exchange rates on cash held	(1)	(1)
4.6	Cash and cash equivalents at end of period	2,983	2,983

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,291	203
5.2	Call deposits	1,692	1,955
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,983	2,158

6. Payments to directors of the entity and their associates

6.1 Aggregate amount of payments to these parties included in item 1.2

6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
98
-

Director's fees and reimbursement of corporate administrative costs

7. Payments to related entities of the entity and their associates

7.1 Aggregate amount of payments to these parties included in item 1.2

7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
9
-

Legal Fees incurred

Mining exploration entity and oil and gas exploration entity quarterly report

8.	Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1	Loan facilities	-	-
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	-	-
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		
NIL			

9.	Estimated cash outflows for next quarter	\$A'000
9.1	Exploration and evaluation	(82)
9.2	Development	-
9.3	Production	(8)
9.4	Staff costs	(102)
9.5	Administration and corporate costs	(104)
9.6	Other	-
9.7	Total estimated cash outflows	(295)

10.	Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	N/A			
10.2	Interests in mining tenements and petroleum tenements acquired or increased	N/A			

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:


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Managing Director

Date: 17 April 2019

Print name: Matt Worner

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.