

ASX Announcement

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Company Update – July 2014

Highlights:

- Permission granted for first horizontal Olmos well
- Negotiations being undertaken to expand MR Olmos position
- Encouraging drilling results at Angourie prospect likely to generate revenue by August 2014
- Final insurance compensation for Bonner 1H received
- Corporate cost reduction strategy initiated

Talon Petroleum Limited (ASX: TPD) is pleased to provide the following company update.

Mosman Rockingham (MR) Olmos, McMullen County, South Texas

Permission has been granted for the first horizontal Olmos well - the Quintanilla OL 1H on a 200 acre tract. Talon's US subsidiary that has a 10% WI in the project will be the operator of the well, and the drilling contractor will be Orion Drilling, LLC using its 1500 HP Orion "Big Dipper" drilling rig. The timing of the Olmos well is subject to Orion completing two (2) wells it currently has scheduled prior to Talon, which leads to an anticipated spud date for the well in late August - September 2014. The total measured depth of the well will be 13,575 feet (8,950 feet TVD) with a lateral length of 4,300 feet. The planned completion will involve a 14-stage frac using the perf-and-plug method.

With over 3,800 gross acres, there is potential for an additional 14 horizontal well locations in which Talon currently has approximately 100% WI. Based on nearby analog horizontal well performance, the gross contingent resource potential (1C) is estimated to be in a range of potential outcomes of 235-327 mboe/well (additional information is available on Talon's website).

Talon is looking to expand its MR Olmos position to increase the number of wells. A letter of intent has been negotiated with an offset operator to evaluate the commercial outcome of joining acreage to increase the number of potential horizontal wells and to place them in a more favourable position relative to the orientation of the well bore and the resulting optimal direction of the frac plane.

Angourie (Yegua) Prospect, Jackson County, South Texas

Scherer #2 well was spudded on 8 May 2014 and reached a total depth of 6,694 feet on 21 May 2014. The well took just seven weeks to tie into the gas sales line - sixteen feet of hydrocarbon bearing Yegua sandstone was logged in the well. The preliminary initial well test was 800 mcf/d and an unmeasured amount of condensate on an 8/64-inch choke with a flowing tubing pressure of 2,050 psi. The well has been tied into an 8-inch gathering line. A four-point test is currently being performed pursuant to a regulatory requirement to obtain a more definitive initial production test result. Given the performance of this well, Talon expects it to start generating revenue by August 2014.

Roundhouse, Cotton Valley, Navarro County, East Texas

The Bonner 1H is currently producing approximately 35 bopd and has produced a combination of frac fluid and reservoir water equal to 105% of the frac fluid volume that was originally pumped. The well will be monitored over the next few months to ascertain the need to lower the pump and/or to clean the lateral of potential debris to increase the oil cut.

The final insurance claim payment of US\$102,774 has been received for the Bonner 1H casing failure. The total amount of compensation received including the final payment was US\$786,898.17 which is approximately 95.6% of the recovery possible under Talon's insurance policy.

Corporate

The Company over recent times has been actively pursuing cost reduction initiatives. One strategy that has been implemented is a reduction in Board costs.

Talon recently announced the retirement of Non-Executive Director Mr David Mason. The Company has no plans to appoint a new Director to fill this vacancy as it believes the current Board composition is adequate for a company of Talon's size. The removal of this Board seat will result in a 20% reduction in Board costs.

In addition, the remaining Non-Executive Directors have agreed to take 50% of their remuneration in Talon shares in lieu of cash payments. The Managing Director, President and CEO, Mr Cliff Foss has also agreed to take 33% of his remuneration in Talon shares. Both of these actions will require shareholder approval at an extraordinary general meeting, which is anticipated to be held in September 2014.

The Company is looking at a number of other corporate cost saving measures to reduce its non-operating costs and will provide the market with an update on these in due course.

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Diagram - Location of Talon projects in the USA



Glossary:

boe	barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 barrel of oil equivalent)
bopd	barrels of oil per day
mboe	thousand barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 boe)
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
Orion	Orion Drilling, LLC
psi	pounds per square inch
Talon	Talon Petroleum Limited
TVD	True Vertical Depth
US\$	U.S. dollars, unless otherwise stated
WI	working interest, a cost bearing interest of an oil and gas project

About Talon Petroleum Limited:

Talon Petroleum Limited is a Texas and Gulf Coast focused exploration and appraisal company listed on ASX (ASX code: TPD). Talon's strategy is to invest in multi-well oil projects that are located within areas with good production infrastructure employing horizontal drilling and advanced fracking technologies. The projects target oil in resource plays (shales) or in low permeability conventional reservoirs that originally produced only a small fraction of the hydrocarbons in-place (old fields with tight reservoirs) where recoveries can be improved with new technologies. Funding to drill the proof of concept tests in the early projects will come from selling down in large acreage blocks.

Talon's current portfolio reflects the strategy and consists of six projects located in East and South Texas, USA. Talon is headquartered in Brisbane, Australia with an office in Houston, Texas, USA. Additional information is available on Talon's website: www.talonpetroleum.com.au