



Letter to Talon Petroleum Shareholders

27 February 2015

Dear Shareholder,

Even before the recent decline in crude prices had begun, your Board was determined to reduce company overheads to the lowest possible level. When the bear market in oil continued to deepen last month, even more significant cuts were deemed necessary. We have now enacted these cuts and estimate that Talon overheads after transitional and one off items are addressed will be under AUD \$600,000 per annum on an ongoing basis.

This restructuring process will put Talon in a much stronger financial position and allow the Board valuable time to get the best possible return for our shareholders, whether through sales at the asset level, a whole of company transaction, or by developing our assets internally. The Board has received various offers and expressions of interest for the purchase of its working interests in both the MR Olmos project and the Coolangatta project, however, at this stage, the board has resolved not to pursue any of them. A number of these discussions are ongoing and shareholders can have confidence that the Talon board is focused on achieving value for shareholders from Talon's asset portfolio.

At previous expenditure levels, it was not viable for Talon to continue with business as usual in the current oil price environment. Annual costs were in excess of the Company's market capitalisation, preventing us from raising equity funds to finance the Company's ongoing operations without incurring unacceptable levels of dilution. Put simply, ongoing costs were not consistent with a Company of Talon's size.

In order to achieve these reductions in expenditure, significant changes have been made. The five employees of Talon in Australia and the US have either ceased employment or been given notice, and arrangements with contractors refined to suit the more modest overhead expenses. As part of this process, Talon's Managing Director, Mr Cliff Foss, will work in a transitional role until mid-August 2015. The Board wishes to thank Mr Foss for his significant contribution to Talon since listing in February 2013. Since my appointment in September 2014, non-executive director fees have been reduced from AUD \$160,000 (annualised) to AUD \$60,000 today (annualised). In addition, the board has agreed to terminate the Prospect Generation Agreement (PGA) with Wandoo Energy LLC (Wandoo) and John Armstrong. The Company will pay Wandoo USD \$100,000 and transfer to Wandoo the Dunsborough prospect, the Sunshine prospect and three unleased Middle Wilcox prospects in exchange for that termination. The termination eliminates monthly payments of approximately USD \$27,000 otherwise required under the PGA for the balance of 2015.

With expenditure reduced and time pressure to agree a deal in respect of the Company's key assets removed, we hope the market will better be able to appreciate the value of our assets as demonstrated through the significant operational milestones made by Talon. The recent retreat in crude prices has overshadowed two important announcements: the strong 90 day initial production test on the Company's first horizontal Olmos well; and the gas condensate discovery made at the Coolangatta prospect.



The recent fall in crude prices has however offered a silver lining to Talon shareholders. In mid-January of this year the oil price was still in free fall, hovering near six year lows when the deadline came for two counterparties to exercise their option to acquire half of our Olmos acreage. They failed to exercise, and as a result Talon now has a 100% working interest in this very prospective acreage. The cost to exercise had been set before the proof of concept horizontal well had been drilled, and as a result materially undervalued what your Board believes to be the true value of the asset.

Your board is continuing to plan and execute ways to simplify the Company's structure with a view to reducing operating costs and facilitating transactions. In particular, at the current market price, the Company's shareholder base currently includes about 1,500 holders of an unmarketable parcel of shares (out of a total shareholder base of less than 2,000). Removing a number of those shareholders will reduce mail-out costs and provide other transactional efficiencies. Accordingly, your board will launch a small lot buy-back in the coming weeks. The board has also determined that the Audit and Remuneration Committees be disbanded immediately. For a small company with three directors, the Board believes the Committees serve no useful purpose and may in fact impede the efficient and effective operation of the board. The matters previously within the purview of those Committees will now be addressed by the full board, subject to appropriate procedures to manage conflicts of interest in matters relating to remuneration.

Companies often point to their greatest strengths being in human capital, corporate culture, or other such intangible attributes. Talon's greatest asset is much less nebulous: it is 3,620 net acres of highly prospective Olmos acreage in McMullen County, South Texas, the majority of which is held by production and therefore requires no continuous drilling to hold. Talon also holds a balanced portfolio of other oil and gas assets, chief among them our working interest in the Coolangatta project. It is the committed intention of your Board to allow maximum value for these assets to be realised for the benefit of all shareholders.

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