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## ENTITLEMENT OFFER

- Fully underwritten non-renounceable pro-rata Entitlement Offer
- The Entitlement Offer will raise \$500,000 (after offer costs) and will fund Talon's general working capital
- Eligible shareholders will be entitled to subscribe for 2 new fully paid ordinary shares in the Company for every 9 shares held at 7pm (Brisbane time) on Monday 7 April 2015 (Record Date) at an issue price of \$0.012 per share
- Underwritten by Trojan Investment Management Pty Ltd for no fee
- Top up facility for eligible shareholders to apply for shares in addition to their entitlement, allocated at the discretion of the board
- The Company plans to undertake a sale of small lots as part of this process

Entitlement Offer Details	
Ratio	2 for 9
Price	\$0.012
Raise before costs	\$550,060
Ex date	1 April 2015
Record date	7 April 2015
Despatch of offer documents	10 April 2015
Offer opens	10 April 2015
Securities commence trading	28 April 2015
Settlement of small lots	15 May 2015

## COMPANY SNAPSHOT

Talon Petroleum holds a 100% WI in ~3,600 acres of the MR Olmos project in South Texas. The majority of this acreage is held by production and continuous drilling by another Operator. Company overheads are estimated to be sub \$600k p.a. after transitional items and are expected to be covered by income from existing production.

ASX Code	TPD
Share Price	\$0.014
Issued Shares	206m
Market Capitalisation	\$2.89m
Overhead expense p.a.	<\$600k



Shareholder	Interest
Peter Love (Chairman)	10.86%
Kieran Mann	4.98%
Coastal Capital	4.77%
Peter Evans (Director)	4.62%
Charissa Mann	4.53%

Board of Directors	Role
Peter Love	Chairman
Cliff Foss	Managing Director
Peter Evans	Non-executive Director



## VALUE PROPOSITION

- *Large undeveloped acreage position on MR Olmos, 80% held by existing production and continuous drilling*
- *Proof of concept horizontal Olmos well has performed above expectations*
- *Discovery well on Coolangatta project provides income / marketable asset*
- *Very low overheads allow control over timing of asset sales*
- *Projected production from existing wells covers overheads for foreseeable future (entitlement offer provides buffer for contingencies)*
- *Small experienced board focussed on cost control and timely asset realisation*



## KEY ASSETS

### MR Olmos

- ~3,600 acres at 100% WI (74% NRI)
- 80% held by production
- 40 additional horizontal locations
- 240-300 mboe gross potential per well
- 10-12 mmboe contingent (1C) gross resource potential



### Coolangatta

- 6.25% WI in significant gas condensate discovery
- ELGU #1 well tested 54 feet of condensate bearing reservoir
- Potential for two follow up wells on existing acreage



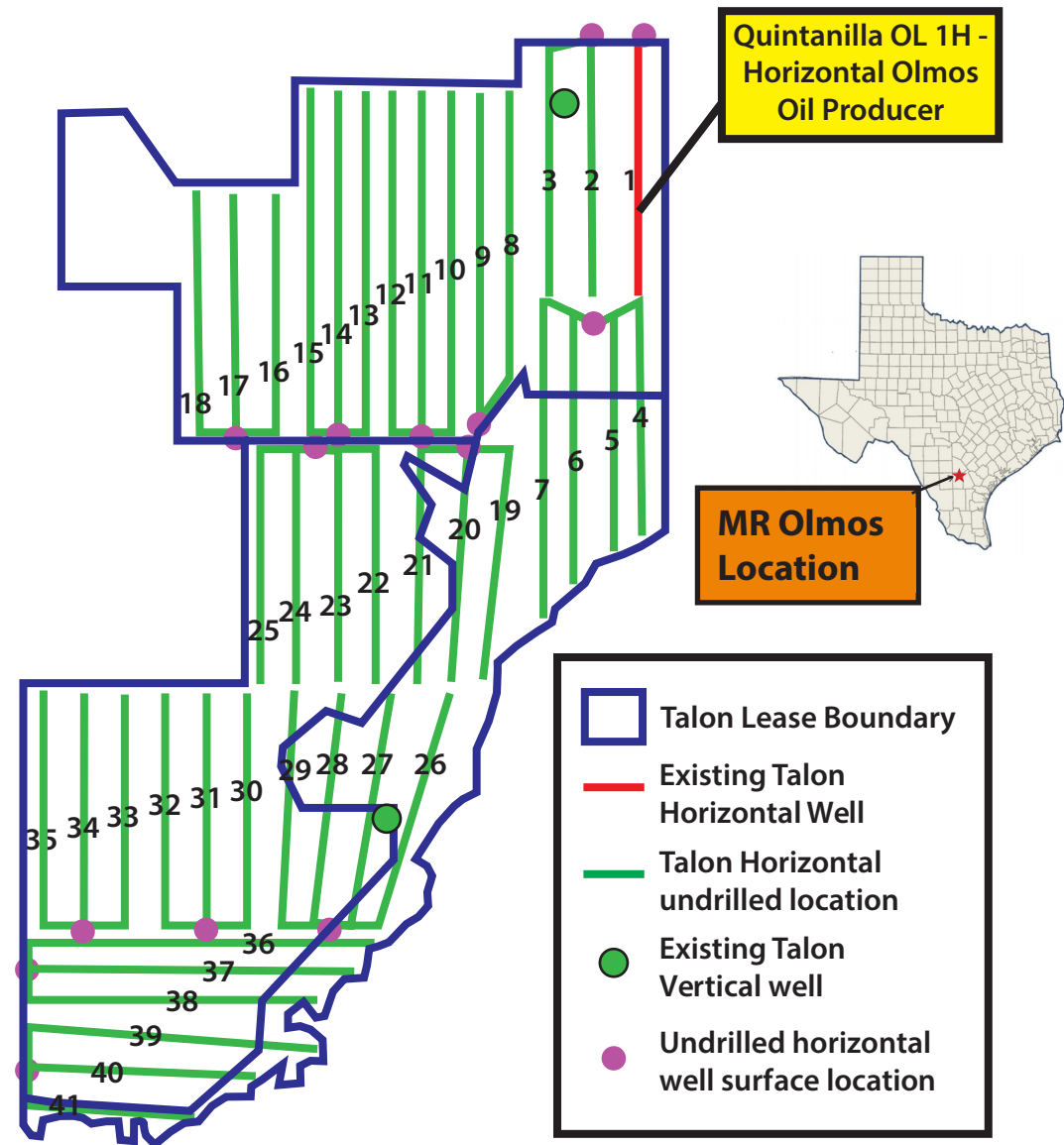
# MR OLMOS PROJECT

- Talon operated, 3,620 net acres, 95% WI
- 80% of leases held by production
- 40 potential additional locations on 80 acre spacing
- McMullen County, South Texas, USA
- Olmos tight sandstone reservoir
- Flank of the prolific AWP field
- One producing Olmos horizontal well
- Two producing vertical Olmos wells
- Net 1P reserves of 31.5 mboe and net 2P reserves of 882.5 mboe\*
- New 3D seismic over entire project
- Estimated gross 10-12 mmboe contingent (1C) resource potential

## Talon Development Estimates

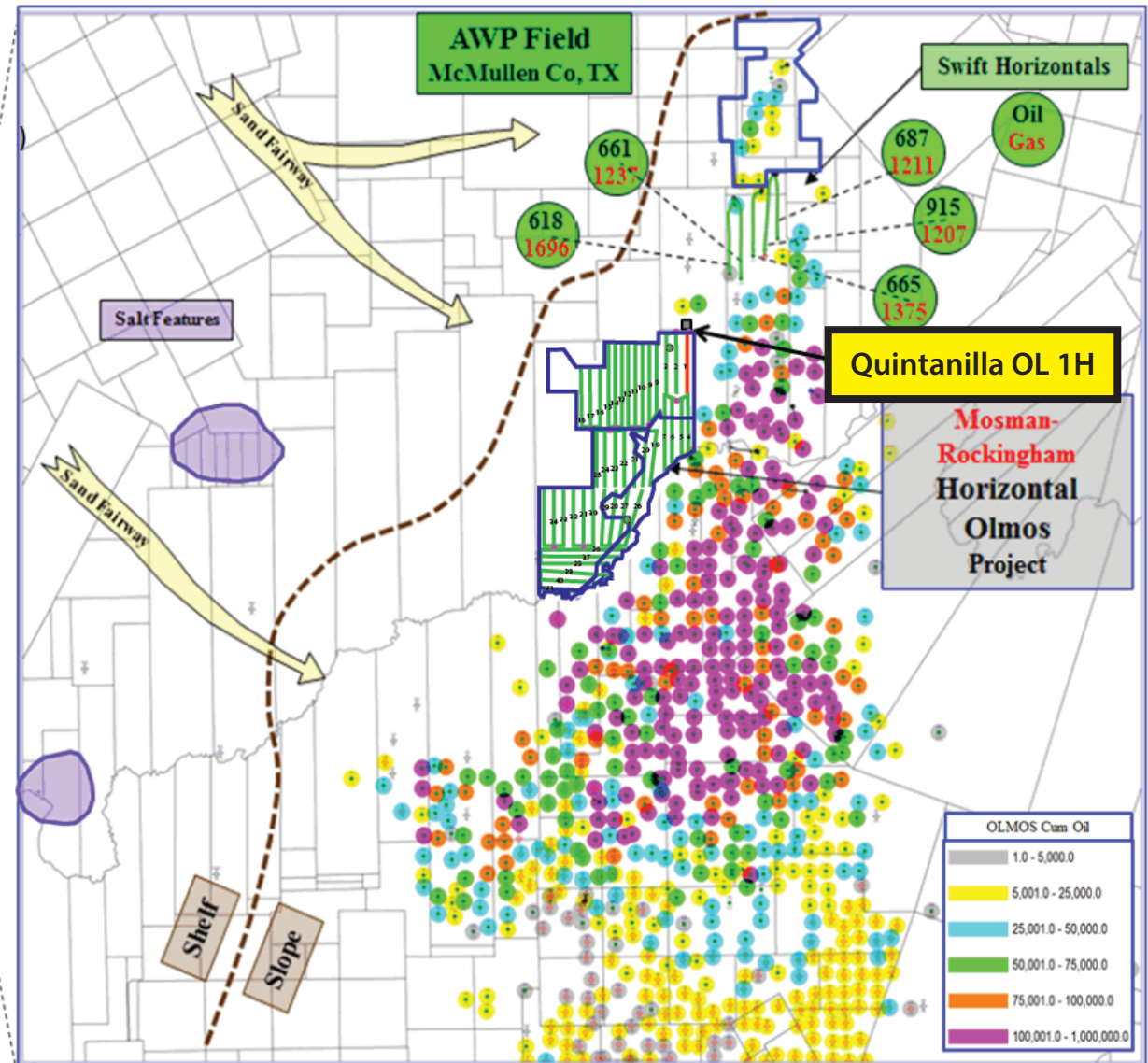
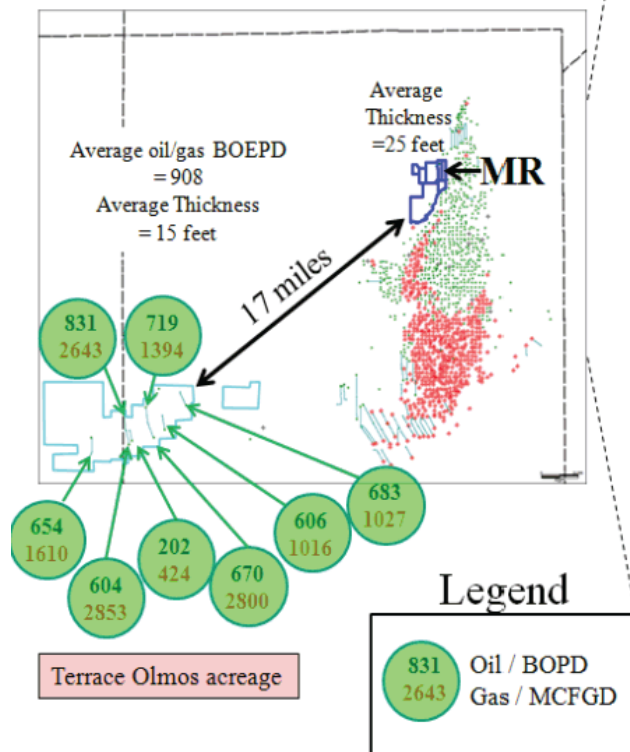
Potential undeveloped Olmos locations	40
Well cost	\$5.5m
Estimated gross well potential (mboe)	240 to 300

\* mboe (thousand barrels of oil equivalent) comprises gas converted to oil equivalent on the basis of six (6) mcf to one (1) barrel of oil equivalent.



# MR OLMOS PROJECT

Talon's project adjoins the AWP Field and is 17 miles from Terrace Energy's successful STS Olmos Project

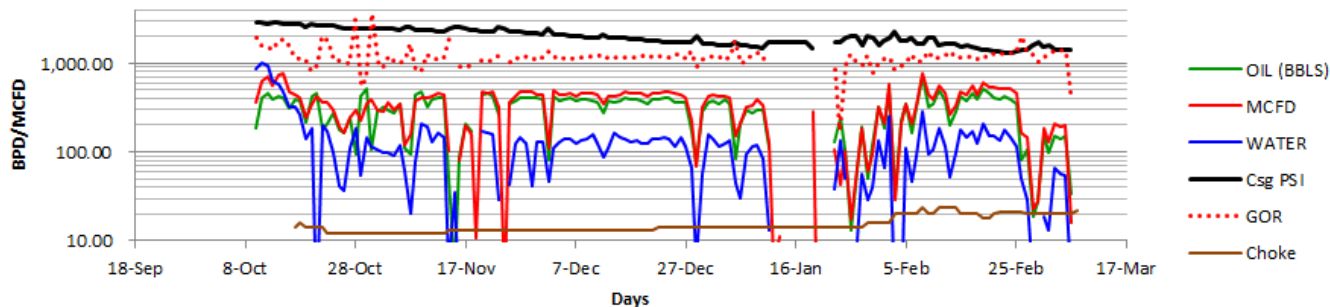




## QUINTANILLA OL 1H WELL

- Talon jointly drilled a proof of concept well on the 199 acre Quintanilla lease (adjoins 100% WI MR Olmos project)
- Talon 10% WI (7.4% NRI) and Operator
- Well spud 3Q14 to 13,555ft MD (8,958 ft TVD)
- 4,286 ft lateral into Olmos formation
- 12 frac stages successfully pumped
- Tested on various choke sizes with a maximum reported rate of 986 boed (744 bopd, 1,452 mcf/d) on a 22/64 inch choke with 2,700 lbs flowing casing pressure
- Well cum'd approx 34,000 boe in first 90 days
- Cum'd 51,000 boe in 160 days with significant downtime due to cold weather, tubing intervention, choke blockages

Quintanilla OL 1H



## COOLANGATTA PROJECT

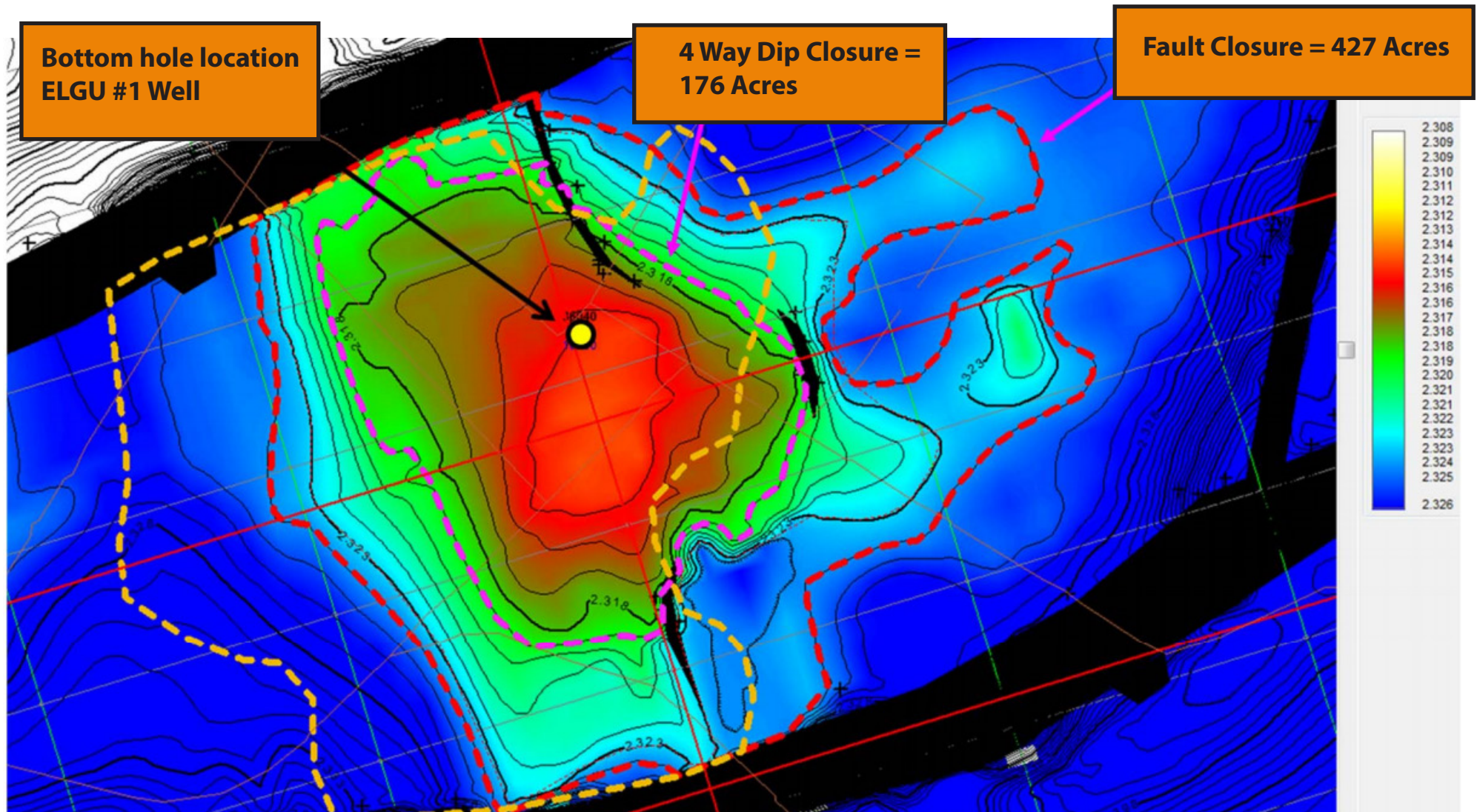
- 3D defined – 4-way dip closure in shallow Wilcox producing fairway
- 4Q14, Eagle Lake Gas Unit 1 well drilled to test the Coolangatta prospect at nil cost to Talon
- 54 feet of gas condensate bearing reservoir encountered
- Talon elected to participate in the completion of the well
- Talon holds a 6.25% WI in the project
- A right of way for a pipeline is being negotiated - revenue expected to commence in May 2015
- Additional wells may be drilled on the prospect



Talon Development Estimates	
Talon's Working Interest	6.25%
Well cost at 100% WI (completed)	\$2.1m
Estimated gross well potential (mboe)	524



# COOLANGATTA PROJECT



# RESERVES

Talon oil and gas reserves (net to Talon's NRI) as at 31 December 2014

	Oil (mbbl)	NGL (mbbl)	Gas (mmcf)	Total (mboe*)
Proved Developed - Producing	14.4	0.8	27.7	19.8
Proved Developed - Non Producing	20.1	0.0	102.6	37.2
<b>Total Proved (1P)</b>	<b>34.5</b>	<b>0.8</b>	<b>130.3</b>	<b>57.0</b>
Probable	685.3	78.5	665.3	874.7
<b>Proved + Probable (2P)</b>	<b>719.8</b>	<b>79.3</b>	<b>795.6</b>	<b>931.7</b>
Possible	559.6	110.2	882.8	816.9
<b>Proved + Probable + Possible (3P)</b>	<b>1,279.4</b>	<b>189.5</b>	<b>1,678.4</b>	<b>1,748.6</b>

\* mboe (thousand barrels of oil equivalent) comprises gas converted to oil equivalent on the basis of six (6) mcf to one (1) barrel of oil equivalent.



## ASSET REALISATION STRATEGY

- *All assets of the Company, as well as the Company itself, are being actively marketed for sale*
- *Need to strike a balance in evaluating lower offers in the short term (low oil price environment), against offers that might prevail when oil prices normalise*
- *Several cash offers have been received for Talon's two main assets*
- *The board considered these offers were opportunistic and undervalued these assets*
- *Lowering costs allows the Company to minimise shareholder dilution and weather low petroleum prices for an extended period*
- *Talon intends to be around to benefit from any industry upswing that might eventuate, while minimising dilution to existing shareholders*

## COST FOCUS

Company wide costs have been significantly reduced. It is estimated that after transitional items, Company overheads will be less than \$600,000 p.a. The board anticipates that revenue from existing producing wells will largely cover overhead costs after transitional items.

Cost	As at 1 July 2014	Estimated Costs After Transitional Items	Change
US employees and consultants	USD 1,108,467	USD 137,640	-88%
US overheads	USD 260,441	USD 70,771	-73%
Australian employees and consultants	AUD 95,100	AUD 35,400	-63%
Australian overheads	AUD 289,850	AUD 234,580	-19%
Directors' fees	AUD 160,000	AUD 60,000	-63%

The board estimates that after receipt of rights issue funds and repayment of short term finance facility, the cash position of the Company will be over \$400,000.

## BOARD OF DIRECTORS

### **Peter Love - Chairman**

Extensive experience in ASX listed small cap oil and gas companies in the US as well as equity capital markets. Manages capital raising and investor relations for Byron Energy Limited. Former Vice President of Operations for Maverick Drilling and Exploration Limited. Former Assistant Fund Manager at ASX listed Trojan Equity Limited.

### **Cliff Foss - Managing Director**

Former Vice-President of Exploration and Exploitation at Cockrell Oil Corporation. Former SVP and General Manager – Gulf Division for Barrett Resources Corporation. Former SVP & GM KCS Energy, Inc. Former SVP (Exploration) Petrohawk Energy Corporation.

### **Peter Evans - Non-executive Director**

Over 30 years' experience as a stockbroker with Paul E Morgan & Co and subsequent entities including Morgans Stockbroking, ABN Amro Morgans and RBS Morgans. Director – Sales at the Morgans entities from 1984 until 2013.

## RISK FACTORS

The activities of Talon are subject to risks which may impact on Talon's future performance. The following summary of risk factors represents some of the general and specific risks in relation to an investment in Talon shares. The following risk factors are not intended to be an exhaustive list of risks to which the Company is exposed.

### External Risks

#### *Exposure to oil and gas pricing*

Any substantial decline in the prices of oil or gas could have a material adverse effect on the financial performance and ongoing operations of Talon. The price of oil and gas is determined by international supply and demand which is highly dependent on a variety of factors, including weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, trading in international oil markets and global economic and political developments. Oil and gas prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future. The Company does not currently hedge its exposure to oil and gas price movements.

#### *Exchange rate fluctuations*

All of Talon's operating assets are located in the USA. The majority of revenues, operating and other business expenditure is determined in US dollars however financial results are reported in Australian Dollars. Fluctuations in the exchange rate between the US dollar and the Australian Dollar will result in foreign exchange gains and losses which may impact on financial performance. The Company does not currently hedge its exposure to exchange rate fluctuations.

#### *Changes to law, regulations or government policy*

Changes in law and regulations or government policy may adversely affect Talon's business, financial position and results of operations. Examples include, changes to legislation or regulations in relation to foreign ownership, access to infrastructure, environmental and health and safety matters (including in respect of carbon emissions and management), tax and royalties, production and exploration licensing, conservation and development of mineral resources and operating and production practices.



## Operating Risks

### *Exploration and appraisal*

As Talon is involved in exploration activities, there is a risk this exploration will not result in the discovery of commercially viable hydrocarbon accumulations. No assurances can be given that if commercially viable hydrocarbon accumulations will be discovered by the Company, it will be able to commercialise any such reserves as intended, or at all thereby having a potential to affect the Company's value.

### *Development production*

Development, construction and operation of oil and gas production facilities is dependent upon a number of factors including reservoir performance and management, oil and gas production and processing facility capacity performance and reliability, and regulatory requirements. Development, construction and operation of oil and gas production facilities may also be impacted by mechanical difficulties, human error, labour disputes, shortages or delays in the delivery of equipment, weather conditions, civil unrest, wars and natural disasters, blowouts, cratering, explosions, pollution, seepage or leaks, fire and earthquake. These factors are substantially beyond the control of Talon and, as a result, there is no assurance that current rates of production can or will be sustained in the future. Disruption to expected production may result in variations to expected revenue and could have an adverse effect on the financial performance and ongoing operations of the Company.

### *Drilling*

Talon's success is largely dependent upon the success of its drilling program. Drilling for oil and gas involves numerous risks, including the risk that no commercially productive oil or gas reservoirs will be discovered. The cost of drilling, completing and operating wells is substantial and uncertain, and drilling operations may be curtailed, delayed or cancelled as a result of a variety of factors beyond Talon's control, including:

- unexpected or adverse drilling conditions;
- elevated pressure or irregularities in geologic formations;
- equipment failures or accidents;
- adverse weather conditions;
- compliance with governmental requirements; and
- shortages or delays in the availability of drilling rigs, crews and equipment.

### ***Water***

Talon uses a substantial amount of water in its drilling operations. Talon's inability to locate sufficient amounts of water, or treat and dispose of water after drilling, could adversely impact its operations. Moreover, the imposition of new environmental initiatives and regulations could include restrictions on Talon's ability to conduct certain operations such as hydraulic fracturing or disposal of waste, including, but not limited to, produced water, drilling fluids and other wastes associated with the exploration, development or production of natural gas. Furthermore, future environmental regulations and permit requirements governing the withdrawal, storage and use of surface water or groundwater necessary for hydraulic fracturing of wells could increase operating costs and cause delays, interruptions or termination of operations, the extent of which cannot be predicted, all of which could have an adverse effect on Talon's operations and financial performance.

### ***Capital cost risk***

Talon has significant forecast capital costs to develop various assets within its portfolio. Estimates of capital costs are prospective and there is a risk that actual capital costs may vary significantly from the estimates. This could be caused by any number of factors which are beyond the control of Talon including increases in the cost of equipment, materials, labour, exchange rate fluctuations, project delays and technical and geological conditions encountered at each project.

### ***Funding***

The Company is an oil exploration and appraisal company that has limited cash generating business units or assets. As is typical for exploration and development companies with limited cash generating businesses, the Company's ability to meet its on-going operating costs and capital expenditure requirements involve expenditure which may exceed the estimated cash resources. Accordingly, Talon's ability to meet these expenditures will depend on its ability to raise new equity capital or access debt funding for that purpose. There is a risk that the future capital raisings or borrowings which Talon may require for these purposes may not be available on terms favorable to Talon or at all.

### ***Joint arrangement assets***

Talon may have joint operation arrangements in place with respect to its certain of its assets This means that proposals for future operations by the majority interest owner of the relevant asset may place Talon in a position requiring it to fund operations, reduce interest or release interest in future operations. This decision may be made on the merits of the proposed operation or due to limited Company cash flow.

***Non-diversified portfolio***

None of Talon's assets are located in the Eagle Ford Shale and its assets are predominately oil projects in Texas USA. Such limited diversification means that Talon is highly susceptible to anything that could impact the geographic area in which Talon operates. This could include natural disasters, bad weather conditions, changes to regulation in that area or terrorist attacks. Due to the lack of diversification of assets, any such impact could have a material effect on Talon's operations as it may impact multiple or all assets owned.

***Estimation of reserves and resources***

There are numerous uncertainties inherent in estimating quantities of oil and gas reserves and resources and production levels, including factors beyond Talon's control. The accuracy of an estimate of quantities of reserves and resources, or of production levels, is a function of available data, assumptions regarding future oil and gas prices, expenditures for future development and exploitation activities, and technical interpretation and judgment.

***Tenure security***

Talon may lose title to, or interests in, its tenements if the conditions to which those tenements are subject are not satisfied or if insufficient funds are available to meet the commitments. As is customary in the industry in which Talon operates, Talon generally relies upon the judgment of oil and gas lease brokers or independent landmen who perform the field work in examining records in the appropriate governmental offices and abstract facilities before attempting to acquire or place under lease a specific mineral interest and before drilling a well on a leased tract. Talon, in some cases, performs curative work to correct deficiencies in the marketability or adequacy of the title to Talon. In cases involving more serious title problems, the amount paid for affected oil and gas leases can be generally lost, and the target area can become undrillable. The failure of title may not be discovered until after a well is drilled, in which case Talon may lose the lease and the right to produce all or a portion of the minerals under the property.

***Health, safety and environmental matters***

Exploration, development and production of oil and gas involves risks which may impact the health and safety of personnel, the community and the environment. Failure to manage these risks could result in injury or loss of life, damage or destruction of property and damage to the environment. Losses or liabilities arising from such incidents could significantly impact Talon's financial results.

# Glossary

1P	proved (developed plus undeveloped) reserves in accordance with SPE-PRMS
2P	proved plus probable reserves in accordance with the SPE-PRMS
3P	proved, probable and possible reserves in accordance with SPE-PRMS
A\$	Australian dollars, unless otherwise stated
BIAPO	back-in after payout
bbls	barrels
bcf	billion cubic feet
bcfe	billion cubic feet equivalent
bcpd	barrels of condensate per day
bo	barrels of oil
boe	barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 barrel of oil equivalent)
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
bwpd	barrels of water per day
mbbl	thousand barrels
mbo	thousand barrels of oil
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
mcf/gpd	thousand cubic feet of gas per day
mmboe	million barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 boe)
mmbtu	million British thermal units
mmcf	million cubic feet
mmcf/d	million cubic feet per day
mmcf/gd	million cubic feet of gas per day
NRI	net revenue interest or share of production after all burdens such as royalties have been deducted from the WI
qtr	quarter
SPE-PRMS	Petroleum Resources Management System 2007, published by the Society of Petroleum Engineers
sq km	square kilometres
sst	sandstone
TVD	True Vertical Depth
US\$	U.S. dollars, unless otherwise stated
WI	working interest, a cost bearing interest of an oil and gas project



## COMPETENT PERSON'S STATEMENT

The reserves estimates shown herein have been independently evaluated by Netherland, Sewell & Associates, Inc. (NSAI), a worldwide leader of petroleum property analysis for industry and financial organizations and government agencies. NSAI was founded in 1961 and performs consulting petroleum engineering services under Texas Board of Professional Engineers Registration No. F-2699.

Within NSAI, the technical person primarily responsible for preparing the estimates set forth in the NSAI reserves report incorporated herein is Mr Neil H. Little. Mr Little has been practicing consulting petroleum engineering at NSAI since 2011. Mr Little is a Licensed Professional Engineer in the State of Texas (No. 117966) and has over 12 years of practical experience in petroleum engineering, with over 5 years' experience in the estimation and evaluation of reserves. He graduated from Rice University in 2002 with a Bachelor of Science Degree in Chemical Engineering.

Mr Little meets or exceeds the education, training, and experience requirements set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers. Mr Little is proficient in judiciously applying industry standard practices to engineering and geoscience evaluations as well as applying ASX and other industry reserves definitions and guidelines. The statements contained in this Annual Report about the Company's reserves estimates have been approved, and are based on, and fairly represent, information and supporting documentation prepared by, or under the supervision of, Mr Little. Mr Little is a member of the Society of Petroleum Engineers, and is qualified in accordance with ASX Listing Rules and has consented to the inclusion of the estimates and the supporting information in the form and context in which they appear.

## FURTHER INFORMATION

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