

ASX Announcement

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Talon forms new joint participation group for MR Olmos project, South Texas

Talon Petroleum Limited (ASX: TPD) is pleased to announce a new joint participation group for its Mosman Rockingham (MR) Olmos project located in McMullen County, South Texas.

Talon has reached an agreement to jointly develop a small 199-acre Quintanilla lease and participate in the proof of concept (Quintanilla 1H) horizontal Olmos well with Terrace STS LLC (TSXV:TZR, OTCQX:TCRRF, FRANKFURT:2TR) ("Terrace"), Aschere Energy LLC ("Aschere") and Eagle Ford Shale Exploration, LLC ("EFSE") in exchange for a total payment to Talon of approximately US\$90K. This initiative is in line with Talon's strategy to minimize cost of the initial test well (10% working interest ("WI")) of a project while maintaining a material position in the surrounding leasehold (50% WI). Should the test well prove successful, this could provide considerable value leverage for the Company.

With over 3,800 gross acres, there is potential for 15 Phase One horizontal locations and approximately 10 Phase Two locations. The MR Olmos project is located approximately 18 miles away from Terrace's highly successful STS Olmos Project where Terrace has drilled 8 successful wells and has identified approximately 160 gross additional drilling locations. Terrace reported on 26 November 2013 that their most recent 4 wells have generated 30 day IP rates averaging nearly 1,000 boepd (600 bopd).

The MR Olmos leases lie on the Northwest flank of the AWP field which has produced 48.9 mmbo and 490.5 bcf from the Olmos sandstone reservoir. Historically the Olmos reservoir was developed with vertical wells, two of which are producing in the MR Olmos leases. Talon believes that through the use of modern day horizontal drilling and hydraulic fracturing the productive capacity can be greatly enhanced and the leases more efficiently developed.

Talon's US subsidiary will be the operator of the Quintanilla 1H well with a WI of 10%, and Terrace, Aschere and EFSE will participate at 33.34%, 16.66% and 40% WI, respectively, for a combined anticipated well cost of approximately US\$5.5 million. Drilling of the Quintanilla 1H well is expected to begin during the June 2014 quarter.

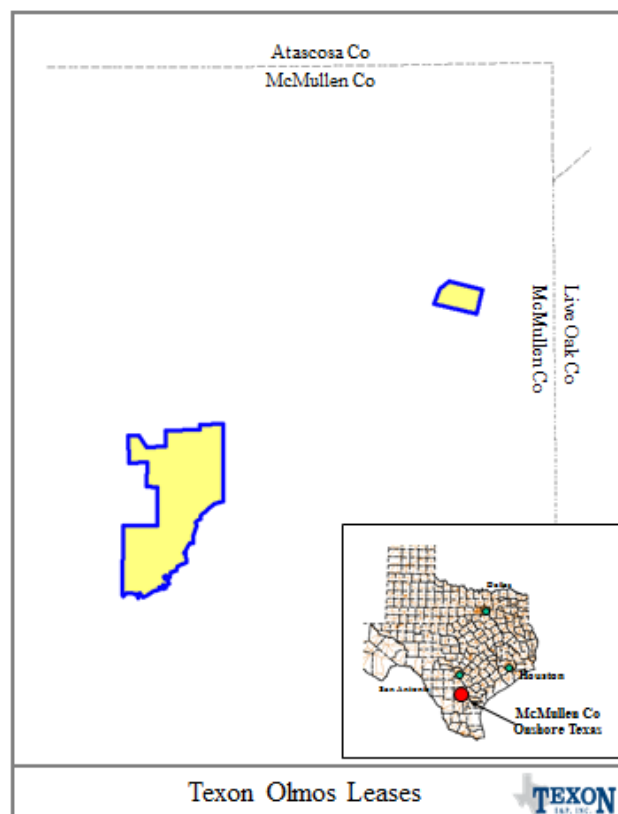
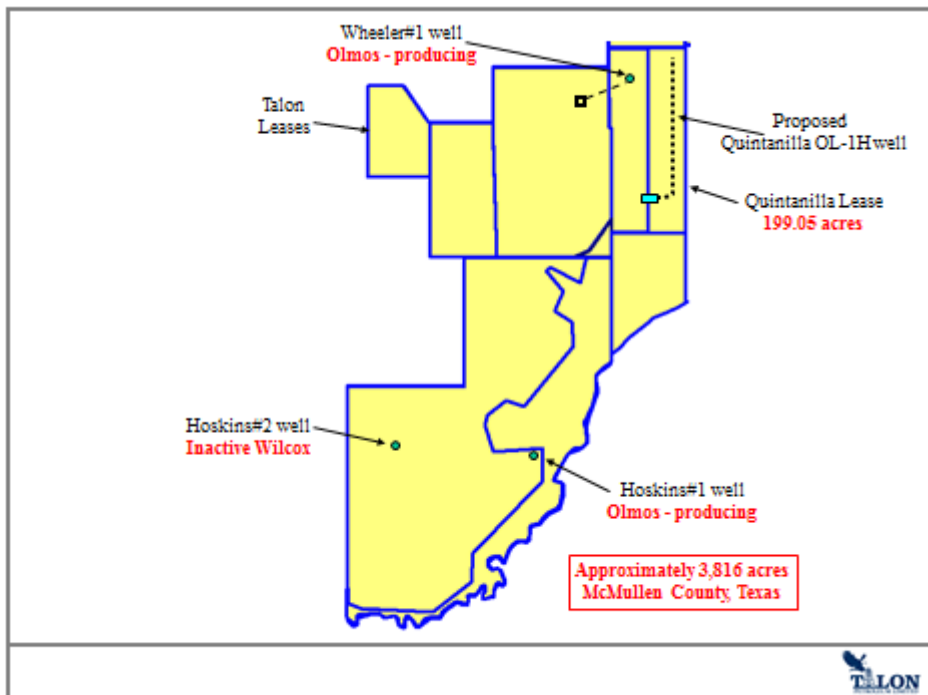
Talon has also agreed to grant Terrace two options; one to buy into the remainder of the Olmos leased acreage (i.e. 3,616 acres), and the second to buy the production from existing two producing wells (Hoskins Unit #1 and Wheeler #1) in its 33.34% WI in exchange for a combined payment to Talon of approximately US\$1.35 million and funding of the proportionate share of the subsequent horizontal well costs. The options can be exercised within 90 days of completion of the Quintanilla 1H well. It is proposed that similar two options are also granted to Aschere in its 16.66% WI in exchange for a combined payment to Talon of approximately US\$0.7 million and funding of the proportionate share of the subsequent horizontal well costs.

Talon President, CEO and Managing Director, Mr Clifford Foss said that the agreement was a good fit for Talon as it allowed the Company to drill the proof of concept well at a 10% WI while retaining 50% WI in the remainder of the Olmos acreage following the initial sell down of interest in the 199 acre site. –ends

About Mosman Rockingham (MR) Olmos Project:

The Mosman Rockingham (MR) Olmos sand horizontal oil play is located in McMullen County, South Texas. Productive vertical Olmos wells are present on and adjacent to the MR area. The Olmos reservoir is a known producing tight oil zone which would benefit from horizontal drilling and hydraulic fracturing. With over 3,800 acres, there is potential for 15 Phase One horizontal locations and approximately 10 Phase Two locations. The project fits Talon’s ongoing strategic focus being a scalable oil zone adjacent to existing fields with development optimised through horizontal drilling and hydraulic fracturing. Based on nearby analog horizontal well performance, the gross resource potential is estimated to be 327 mboe/well. The MR Olmos leases lie on the Northwest flank of the AWP field which has produced 48.9 mmbbl and 490.5 bcf from the Olmos sandstone reservoir.

Diagram – Location of Talon’s MR Olmos leases and wells



Glossary:

Aschere:	Aschere Energy LLC, a US-based oil & gas exploration and production company
bbl:	barrel
bcf:	billion cubic feet
boe:	barrels of oil equivalent
boepd:	barrels of oil equivalent per day (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 boe)
bopd:	barrels of oil per day
EFSE:	Eagle Ford Shale Exploration, LLC, a US-based oil & gas exploration and production company
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
mmbbl:	million barrels of oil
Phase One locations:	lower risk locations based on seismic analysis
Phase Two locations:	higher risk secondary locations in areas with lower seismic response
Talon or Company:	Talon Petroleum Limited
Terrace:	Terrace STS LLC, a Canadian based oil & gas exploration and production company
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 three significant projects: Roundhouse Prospect located in Navarro County in East Texas, Mosman Rockingham Olmos project located in McMullen County in South Texas and Catfish Creek, Redfish and East Banks prospects located in Henderson, Anderson and Smith Counties in East Texas. Additional information is available on Talon's website: www.talonpetroleum.com.au

About parties to MR Olmos joint participation group

Terrace STS LLC (TSXV: TZR, OTCQX: TCRRF, FRANKFURT: 2TR) is a Canadian-based oil and gas exploration and production company focused on onshore, US oil drilling opportunities. Please refer to the company website: <http://terraceenergy.net/>

Aschere Energy LLC is a Texas-based oil and gas drilling company that specialises in strategic and tactical lease acquisitions in world class producing sectors throughout the US. Please refer to the company website: <http://aschereenergy.com/>

Eagle Ford Shale Exploration, LLC is a US-based oil and gas exploration and production.