

Quarterly Report for the Period Ending 30 June 2017

Talon Petroleum Limited (ASX: TPD) (“Talon” or “Company”) is pleased to present its June 2017 quarterly report.

Highlights

- Produced 706 boe net to Talon during the quarter.

1. Production Profile

Production for the quarter is detailed in the table below:

Quarter ended 30 June 2017	Gross	Net (Talon share) ⁽¹⁾
Gas (mcf)	12,087	891
Oil (bbl)	3,247	558
Total (boe ⁽²⁾)	5,262	706

⁽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.

Talon’s average daily production for 2Q17 was 36 bopd and 132 mcfgpd gross (6.1 bopd and 9.8 mcfgpd net) from the two operated vertical wells and one horizontal well located at its MR Olmos project in South Texas.

MR Olmos Project, McMullen County, Texas, USA (Talon 10-100% WI)

Production from the Quintanilla OL 1H (horizontal Olmos) is averaging approximately 25.7 bopd gross (1.9 bopd net) and 91.2 mcfgpd gross (6.7 mcfgpd net) for the period 1 July 2017 to 15 July 2017. The well has produced a cumulative 96,717 bo and 174,315 mcf (125,769 boe) in its first 1,011 days of production.

The Wheeler #1 Olmos vertical well is producing 2.3 bopd gross (1.6 bopd net). The other Olmos producer, the Hoskins Unit #1 vertical well, went off production in January 2014 as a result of a hole in the tubing but is being flowed to tanks on occasion as pressure builds for an average of 2.0 bopd gross (1.46 bopd net).

2. Lease Position

Dispute with Lessor

As announced on 4 July 2017, Talon Petroleum Limited (Talon or Company) received a letter from a Lessor on part of its McMullen County, Texas, Mosman Rockingham (MR) Olmos acreage disputing Talon's leasehold position on specific leases.

Lease Background

The background to the Company's MR Olmos acreage extends back to Texon Petroleum Limited (Texon).

Texon, through a US subsidiary (**TEP II**), held a number of McMullen County leases which covered all depths from the surface through the Olmos and the Eagle Ford formations. Texon assigned the component of the lease above the Eagle Ford formation, which includes the Olmos formation, to another of its wholly owned subsidiaries.

The separation of Texon's Olmos asset from Texon's Eagle Ford Shale asset was conducted as part of the strategy to unlock non-Eagle Ford Shale Texon asset value.

As detailed in the Texon Demerger Scheme Booklet released on ASX 27 February 2013, a demerger transaction occurred whereby Sundance Energy Australia Limited (**Sundance**) acquired the Texon subsidiary which held the Texon Eagle Ford Shale leases, while Talon, which owned the US subsidiary assigned the component of the leases above the Eagle Ford formation containing the Olmos formation demerged from Texon and was admitted to the Official List of ASX 27 February 2013.

Following the acquisition of Texon's McMullen County Eagle Ford Shale leases by Sundance, a Sundance subsidiary, SEA Eagle Ford, LLC has drilled multiple horizontal Eagle Ford Shale wells and produced from the Eagle Ford Shale formation.

In addition to SEA Eagle Ford, LLC's producing Eagle Ford Shale wells, Talon has two producing vertical wells on its MR Olmos acreage, the Wheeler #1 Olmos vertical well (95% working interest) and Hoskins #1 Olmos vertical well (95% working interest) as well as one producing horizontal well the Quintanilla OL 1H Olmos horizontal well (10% working interest).

Current Status

Talon has responded to the Lessors dispute letter and has not yet received a response. Talon is in the process of collating further information to be provided to the Lessor in respect of production and drilling activity conducted on the relevant leases by both its wholly owned subsidiary Texon E&P I, Inc. and also SEA Eagle Ford, LLC (a subsidiary of ASX listed Sundance).

Talon is also working closely with US legal counsel on a review of the status of all leases comprising the 'MR Olmos project', particularly with regard to the satisfaction of the continuous drilling/development obligations in the leases. While that work is ongoing, Talon has delayed the

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launch of the sale process (to be conducted by PLS Inc (Petroleum Listing Service)) until Talon is in a position to provide more certain advice to potential buyers on the status of the MR Olmos leases.

Contact Information

For further information, please contact Peter Love (Chairman): peter.love@talonpetroleum.com.au

Glossary

2Q17:	three months ended 30 June 2017
bbl:	barrels
bcf:	billion cubic feet
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 (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 boe)
bopd:	barrels of oil per day
bpd:	barrels per day
mcf:	thousand cubic feet
mcf(p)d:	thousand cubic feet per day
mcfg(p)d:	thousand cubic feet of gas per day

About Talon Petroleum Limited:

Talon Petroleum Limited is a South Texas focused unconventional petroleum company listed on ASX (ASX code: TPD). Talon's principal asset is its MR Olmos project, located in McMullen County, Texas, USA. Additional information is available on Talon's website: www.talonpetroleum.com.au.

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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")

30 June 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers (see note 4)	9	38
1.2 Payments for		
(a) exploration & evaluation	-	-
(b) development	-	-
(c) production	(22)	(55)
(d) staff costs	(29)	(58)
(e) administration and corporate costs	(121)	(201)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	2
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) - Hoskins #2 well plugging	(43)	(43)
1.9 Net cash from / (used in) operating activities	(204)	(317)

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

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Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
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	-	-
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	-	-
3.5	Proceeds from borrowings	-	275
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) – Unclaimed money returned to the Company in connection with the 2015 Small Lot Process	63	63
3.10	Net cash from / (used in) financing activities	63	338

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	561	401
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(204)	(317)
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)	63	338

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	(2)
4.6	Cash and cash equivalents at end of period	420	420

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	56	306
5.2	Call deposits	364	255
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)	420	561

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

61

-

6.1 Payment of salary to directors and fees to company secretary and fees to director related parties.

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

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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	275	275
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.		

On 27 March 2017 the group entered into a financing arrangement with an unrelated party to provide a \$275,000 unsecured loan for a period of up to twelve months. The loan carries an interest rate of 15% and had a \$5,000 establishment fee.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	-
9.2 Development	-
9.3 Production	22
9.4 Staff costs	29
9.5 Administration and corporate costs	137
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	188

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: Peter Love Date: 31 July 2017
Director

Print name: Peter Love

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.
4. Cash receipts from production activities lower in June 2017 quarter due to only two production payments being banked in the June 2017 quarter. The third production payment for the June 2017 quarter was banked in July 2017. This production cheque was for A\$20,926.