

25 February 2013

General Meeting – Chairman's Presentation

I would now like to say a few words about the proposed resolutions.

The first of these resolutions is the Capital Reduction Resolution.

Texon has proposed the Capital Reduction Resolution to permit Texon to reduce its capital on the date the Demerger Scheme is implemented by \$19,220,000. If the Capital Reduction and the Demerger Scheme are approved by Texon Shareholders and the Demerger Scheme is approved by the Court, then on the implementation of the Demerger Scheme the share capital of Texon will be reduced by that amount.

The Capital Reduction is conditional on Texon Shareholders approving the Demerger Scheme and on implementation of the Demerger. This means that Texon will not undertake the Capital Reduction unless the Demerger Scheme becomes Effective. As you may know, the resolution to approve the Demerger Scheme was passed at the Demerger Scheme Meeting earlier today.

The Capital Reduction Amount will be applied by Texon as consideration for the acquisition of Talon Shares. Accordingly, Eligible Scheme Shareholders will not receive a cash payment for the Capital Reduction Amount, but will instead receive two Talon Shares for every five Texon Shares they hold on the Demerger Record Date.

It is a condition of the Demerger Scheme approved by resolution earlier today that the Capital Reduction Resolution is passed. The Demerger is also a condition to the Acquisition Scheme which was also passed earlier today.

It is therefore important to note that the Demerger Scheme and the Acquisition Scheme will not proceed to implementation and Texon shareholders will not receive their Talon or Sundance shares if the Capital Reduction Resolution is not passed.

Further details on the Capital Reduction resolution are set out in the Demerger Scheme Booklet.

I note that before proceeding to consider the Capital Reduction Resolution, a minor correction will be proposed to the Capital Reduction Resolution as it was printed in the Notice of Meeting as announced to the market by Texon on 18 February 2013.

Given that the Demerger Scheme has been approved by Texon shareholders, Texon's Board of Directors unanimously recommends that shareholders vote in favour of the Capital Reduction Resolution and the proposed amendment to the Capital Reduction Resolution.

The second proposed resolution to be considered at this General Meeting relates to the issue of Talon shares to Wandoo Energy LLC. As part of the Acquisition Scheme, which has been approved by Texon shareholders earlier today, Texon agreed to buy from Wandoo Energy LLC, a company which is associated with David Mason, our US-based director, certain carried working and royalty interests in the Eagle Ford Shale Assets. The consideration payable by Texon for these interests, is the payment of US\$1.2 million and the issue of 4,480,000 Talon shares to Wandoo. This consideration is subject to an adjustment downwards to US\$1 million and 4 million Talon shares if binding agreements with certain landowners are not entered into within 12 months.

The reason for this resolution is set out in the Notice of Meeting. Essentially, ASX Listing Rule 10.11 requires a listed company to obtain shareholder approval prior to the issue of shares to a related party. Following discussions between Texon's advisors and the ASX regarding the application of Listing Rule 10.11 to the issue of Talon shares to Wandoo, Talon has applied for, and has received a waiver of Listing Rule 10.11 for the issue of those shares on the basis that it will be approved by Texon Shareholders.

The Independent Expert has valued these interests being acquired as being in the range of \$4 million to \$4.7 million with the total consideration payable being in the range of \$1.9 million to \$2.1 million.

The issue of Talon shares to Wandoo will only occur if the Court approves both the Acquisition and Demerger Schemes, which as I have mentioned, were approved by Texon shareholders earlier today.

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