



TALON PETROLEUM LIMITED

ABN 88 153 229 086

**ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2020**

Contents

Corporate Directory	3
Chairman's Letter	4
Operational Review	5
Director's Report	13
Auditor's Independence Declaration	28
Consolidated Statement of Profit or Loss and Other Comprehensive Income	29
Consolidated Statement of Financial Position	30
Consolidated Statement of Changes in Equity	31
Consolidated Statement of Cash Flows	32
Notes to the Consolidated Financial Statements	33
Directors' Declaration	55
Independent Auditor's Report to Members	56
Shareholder Information	59
Glossary	61
Qualified Evaluator Statements	62

Corporate Directory

Directors

Douglas Jendry (Appointed 13 October 2020)
Non-Executive Chairman

David Casey (Appointed 19 July 2020)
Managing Director & CEO

Matt Worner
Executive Director

Stephen Jenkins
Non-Executive Director

Company Secretary

Lauren Nelson

Principal Place of Business and Registered Office

1202 Hay Street
West Perth WA 6005
Telephone: +61 8 6319 1900

Solicitors

Steinepreis Paganin
Level 4, The Read Buildings
16 Milligan Street
Perth WA 6000

Auditors

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008
Telephone: +61 8 6382 4600

Share Registry

Computershare Investor Services Pty Ltd
Level 11, 172 St Georges Terrace
Perth WA 6000
Australian Telephone: 1300 850 505
International Telephone: +61 3 9415 4000
www.computershare.com.au

Stock Exchange Listing

Australian Securities Exchange Limited
ASX Code: TPD

Website

www.talonpetroleum.com.au

Chairman's Letter

Dear Shareholder,

2020 was a transformational year for Talon, with the Company making substantial progress on building a drill ready diversified portfolio of assets in the Perth Basin and North Sea.

This was underpinned by the successful execution of a farm-in agreement giving Talon the right to earn a 45% interest in Strike Energy Limited's EP447 permit, which contains the highly prospective Walyering gas prospect, in the Perth Basin.

Talon capped off a productive year with the securing of a rig to drill the Walyering-5 appraisal well, amid intense competition for rigs, and the award of three new exploration licences in the UK North Sea.

Walyering is one of three drilling slots secured by Strike and will be the first well drilled in 2021 following the completion of the West Erregulla drilling campaign. The Walyering transaction has been transformative for Talon, but there is also real upside in the rest of portfolio.

Talon remains committed to its UK North Sea exploration portfolio and is continuing with its farm-out efforts on the Skymoos, Rocket and Vantage prospects. While COVID-19 continues to provide a challenging macro-economic environment, the level of engagement and interest from potential partners remains strong, with several new parties entering the data room during 2020.

The Company is in a strong financial position, following the successful completion of a \$5 million capital raising in March 2021, and is fully funded to complete its 2021 work program.

Talon welcomed David Casey as its new Managing Director and CEO. Mr Casey has a wealth of experience in the oil and gas sector as a geologist and Managing Director/CEO of ASX-listed companies. I would like to acknowledge former Talon directors, Peter Stickland and Graham Doré, who resigned from the board during the year.

Talon is off to a great start in 2021, having expanded its presence in the Perth Basin via the planned acquisition of a 100% interest in the area covering the large Muchea Structure in EP494 and SPA-0081. Talon has also secured an option to acquire a 33 per cent stake in a soon-to-be-granted production sharing agreement (PSA) over the Gurvantes XXXV Field, marking the company's entry into the exciting and emerging Mongolian coal bed methane (CBM) industry.

Your Company has a busy year ahead with plenty of near-term catalysts and an experienced management team with a proven track record of success. We look forward to delivering value for our shareholders.



Douglas Jendry
Non-Executive Chairman

Operational Review

Highlights during the year 2020 included:

- Agreement with Strike Energy to farm-in for a 45% interest in EP447 (Walying), and for first right of refusal over EP495 (Ocean Hill) in return for funding of \$6M of \$9M Walying appraisal well
- The expansion of the UK North Sea exploration portfolio, with three new exploration licences awarded
- Talon identified and acquired a 100% interest over the Condor structure in the Perth Basin from the Macallum Group, post year-end
- Secured an option to farm-in to a 33% Interest in 8400km² of prospective coal seam gas acreage in Mongolia from the Telmen Group, post year-end
- A Board restructure, with the addition of Mr David Casey (MD/CEO) and Mr Douglas Jendry (Non-Executive Chairman)
- A successful capital raising amounting to \$5,000,000, with an additional \$5,000,000 post year-end

Perth Basin

The Company entered into an agreement with Strike Energy Limited (**Strike**) in respect of a farm-in by Talon for a 45% interest in EP447, located onshore, Perth Basin, Western Australia and the drilling of a well at the Walying Jurassic wet gas prospect.

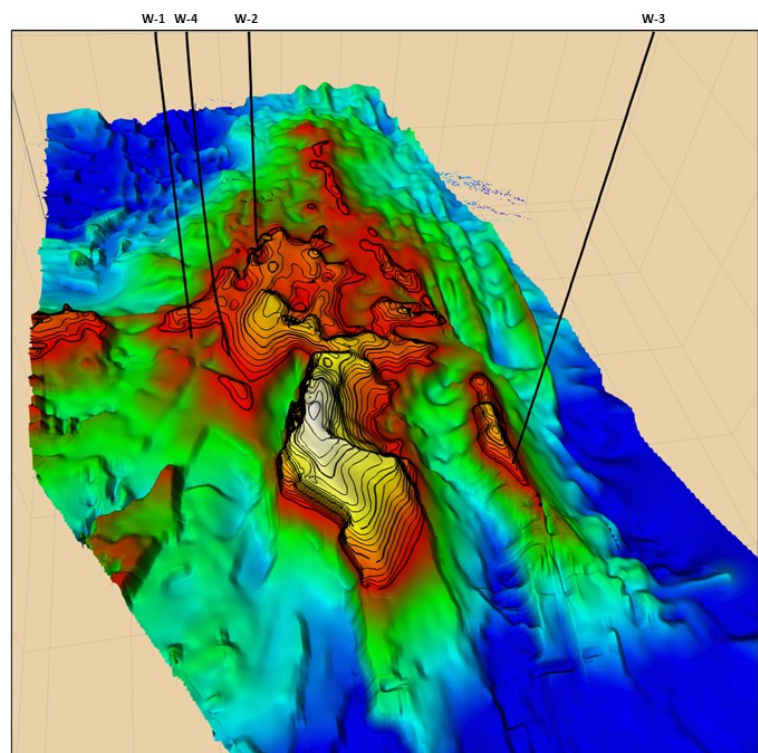
Newly acquired and interpreted 3D seismic over EP447 has allowed Strike to apply its Perth Basin technical expertise to Walying and reconcile past technical challenges with the prospect. Walying's proximity to infrastructure, low CO₂ and high liquids component, will assist with the reduction in development and production costs and commercial viability in the event of success.

As part of the farm-in to Walying, Talon has also secured a right of first refusal over an entry to EP495, which contains the Ocean Hill discovery. Ocean Hill is currently held 100% by Strike and has a gross 2C Contingent Resource of 360Bcf (gas) and 1.18mmbbls (condensate). Refer to Talon Petroleum Limited ASX release dated 24 July 2020 entitled 'Perth Basin Resource Numbers' for more information on prospective resource and contingent resource. Talon confirms that it is not aware of any new information or data that materially affects the information included in that announcement and that all the material assumptions and technical parameters underpinning the estimates contained in that announcement have not materially changed and continue to apply.

As consideration for the acquisition of its 45% interest in EP447 and a right of first refusal over EP495, Talon shall contribute \$6 million towards the cost of an appraisal well on the Walying Prospect. The gross well cost is estimated at \$9 million and the well will be added to Strike's planned 2021 multi-well Perth Basin campaign.

Strike has executed an agreement with Ensign Energy Services for the provision of the Ensign Rig 970 for the drilling of the Walying-5 appraisal well.

Walying is one of three drilling slots secured by Strike Energy and will be the first well drilled following the completion of the West Erregulla drilling campaign also operated by Strike utilising Rig 970.



Walying A-Gas Sand: 3D rendered Time Structure map illustrating main structural closure and subsidiary internal fault compartments

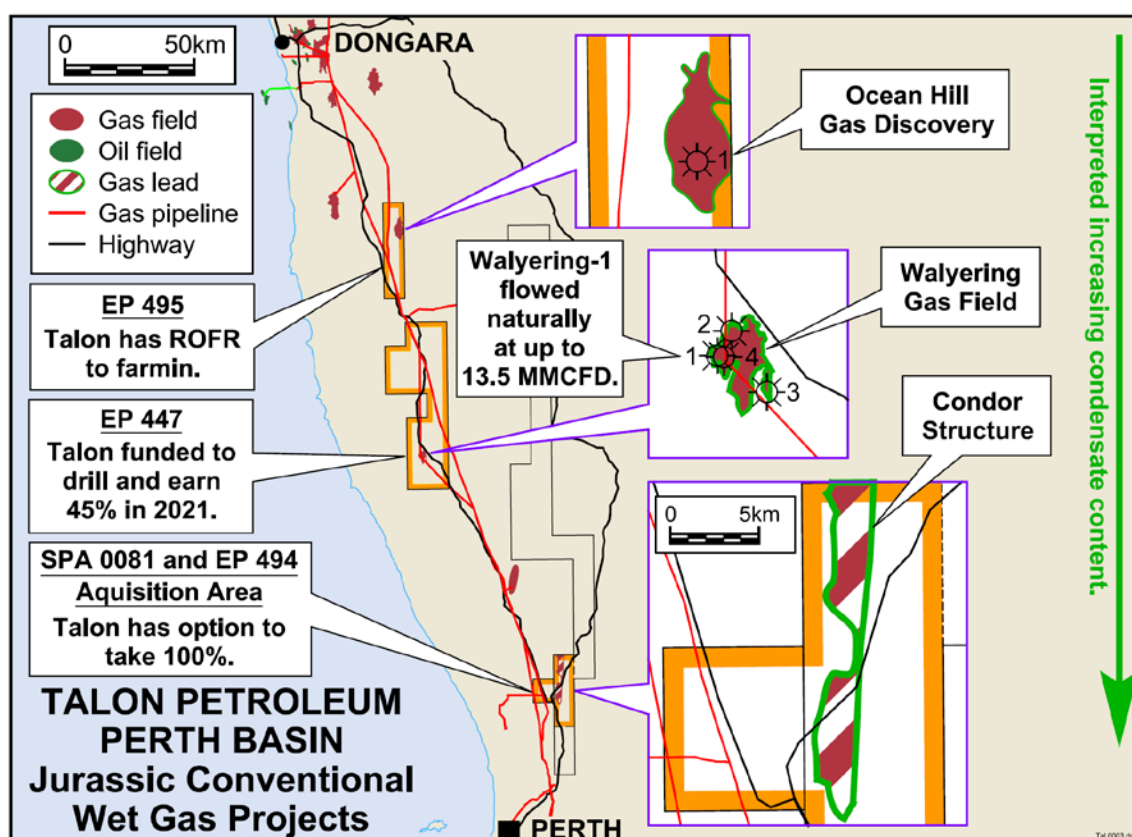
Operational Review

In the event of success at Walyering-5 the well will be cased for production, which due to the high gas quality (<1% CO₂) requires minimal processing, and given the permit's proximity to both existing pipeline infrastructure and potential commercial gas users could see very early and rapid commercialisation of any discovery.

Walyering A & B Sands Conventional Wet Gas Prospective Resource			
	Low Estimate (P90)	Best Estimate (P50)	High Estimate (P10)
Talon Share (45%)*			
Gas (GIIP bcf)	21.6	38.7	63.9
Condensate (mmbbl STOIP)	0.55	0.981	1.62

The estimated quantities of petroleum that may potentially be recovered by the application of future development projects relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Refer to Talon Petroleum Limited ASX release dated 24 July 2020 entitled 'Perth Basin Resource Numbers' for more information on prospective resource and contingent resource. Talon confirms that it is not aware of any new information or data that materially affects the information included in that announcement and that all the material assumptions and technical parameters underpinning the estimates contained in that announcement have not materially changed and continue to apply.

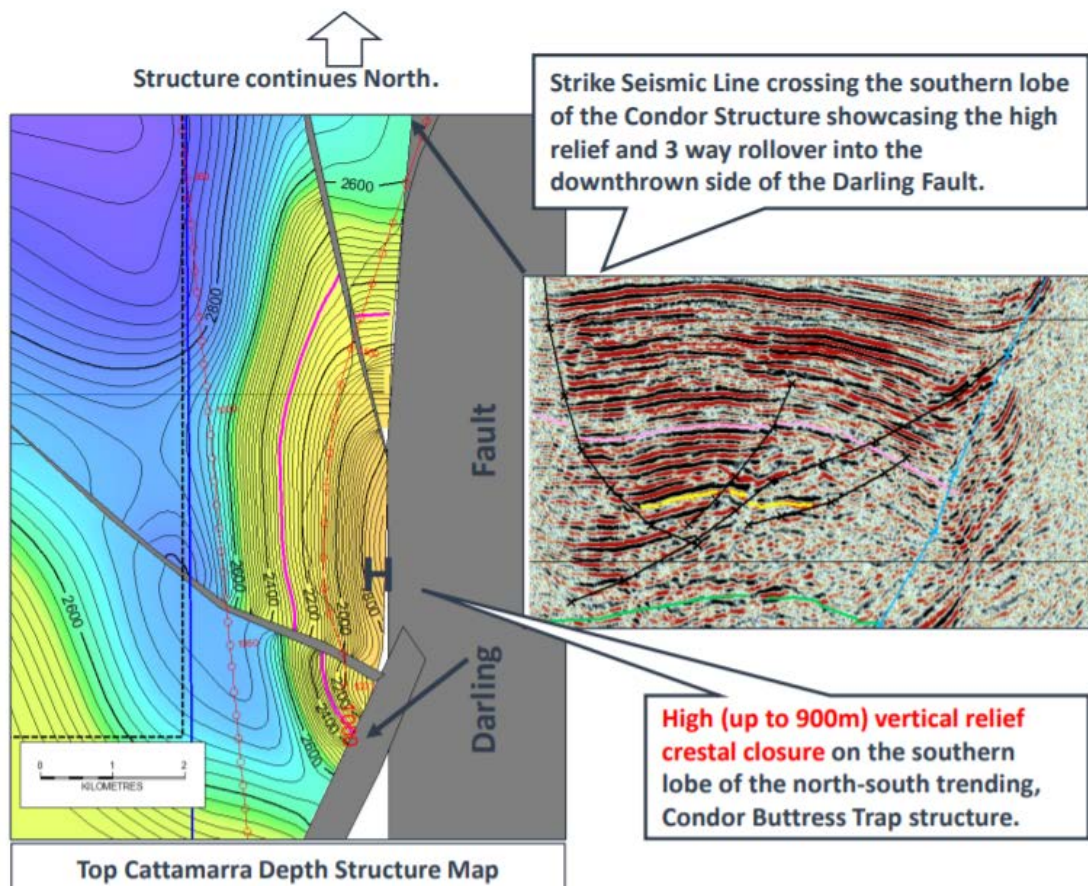


Operational Review

On 17 March 2021, Talon announced to the ASX that it had estimated initial, recoverable Prospective Resources over the high relief Condor Structure contained within EP494 and SPA-0081, located onshore Perth Basin.

Condor Structure Unrisked Prospective Resources (Talon 100%)									
Permit	LOW (P90)		BEST (P50)		HIGH (P10)		Mean		COS
EP494	Cond (MMbbl)	Gas (Bcf)	Cond (MMbbl)	Gas (Bcf)	Cond (MMbbl)	Gas (Bcf)	Cond (MMbbl)	Gas (Bcf)	(%)
	9.5	202	20.2	408	39	710	22.6	433	15

The estimated quantities of petroleum that may potentially be recovered by the application of future development projects relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. For more information on Prospective Resources, refer to ASX announcement dated 17 March 2021. Talon confirms that it is not aware of any new information or data that materially effects the information included in that announcement and that all material assumptions and technical parameters underpinning the estimates contained in that announcement have not materially changed and continue to apply.



Operational Review

Condor provides Talon with an important follow-on drilling opportunity in the event of success at its planned maiden Perth Basin well Walyering-5, that will appraise the Walyering wet gas discovery. This important well is to be drilled with partner and Operator Strike Energy Limited, later in 2021.

The structure of the Macallum transaction allows the Company to undertake low-cost initial exploration work to better define the potential at Condor while progressing towards and through drilling at Walyering. The assessment of such a significant Prospective Resource at Condor represents another, important step forward for Talon in building its Perth Basin asset portfolio. The Company's strategy for the Basin, underway for less than 12 months, has now yielded entries into Walyering, Condor and the securing of a right of first refusal over the Ocean Hill gas discovery in EP495. All projects have very low CO₂ gassy conventional targets supplemented by strong projected yields of condensate (light oil). If the high levels of condensate can be proven at Condor there is potential to yield significant additional value given the recent strengthening in oil price.

Gurvantes XXXV - Mongolia

Subsequent to year end, Talon executed a binding offer letter with Telmen Resource JSC (**Telmen**) in respect of a farm-in for a 33% interest in the proposed Gurvantes XXXV Production Sharing Agreement (**PSA**), located onshore Mongolia.

Telmen is the holder of a coal bed methane (**CBM**) Prospecting Contract over the area of the proposed PSA and has undertaken an initial prospecting work program to better understand its prospectivity. With that initial work now complete, Telmen has concluded negotiations with the Mineral Resources and Petroleum Authority of Mongolia (**MRPAM**) on the commercial terms of the PSA. The PSA requires approval from the Ministry of Mining and Heavy Industry and subsequently requires approval from the Cabinet of Mongolia before formal award of the PSA can be made. It is anticipated that formal award of the PSA will be forthcoming in the near term.

The agreed consideration for Talon's entry into Gurvantes XXXV is an initial cash consideration of US\$350,000 with a further committed US\$1,500,000 for an initial work program, which includes drilling a minimum of 4 holes.

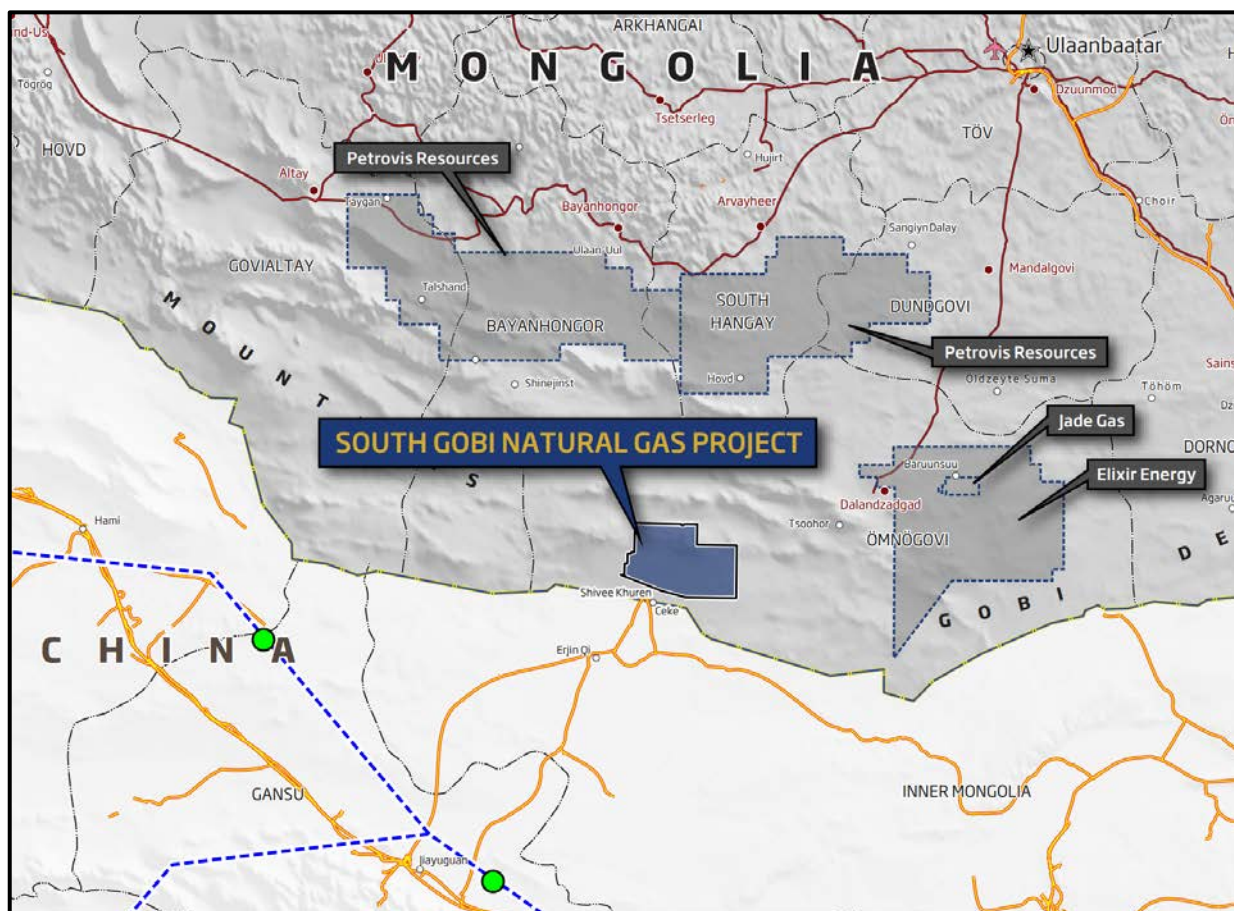
Upon completion of this initial work program, the Company has 90 days to elect to terminate the farm-in-agreement or commit to a second work program amounting to US\$3,150,000, after which time costs exceeding this total will be shared between the parties based on their respective participating interests in the project.

The proposed PSA (nominally named Gurvantes XXXV) covers a significant area of 8,400km² and is in what is considered one of the most prospective basins for CBM globally. Gurvantes XXXV is situated less than 20km from the Chinese-Mongolian border and close to the extensive Northern China gas transmission and distribution network. Notably, it is the closest of Mongolia's CBM projects to China's West-East Gas Pipeline. Likewise, it is proximate to several large-scale mining operations with high energy needs. As such, Gurvantes XXXV is ideally placed for future gas sales to satisfy both local Mongolian, as well as Chinese, energy requirements.

Initial work program operations at Gurvantes XXXV are expected to commence as soon as possible upon formal PSA award. Work will include the drilling of at least 4 core holes where important data will be gathered to confirm gas contents and understand permeability, which is one of the last remaining technical parameters to be understood at the project.

Further, Talon has secured the right to match any offer Telmen may receive in respect of the transfer or sale of an additional interest in Gurvantes XXXV.

Operational Review



Placement to fund Gurvantes XXXV work programs

In conjunction with the transaction with Telmen, subsequent to year end, the Company completed a capital raising by way of a placement to existing institutional and sophisticated investors to raise a minimum \$4 million with \$1 million accepted in oversubscriptions to fund the work programs on the Gurvantes XXXV (**Placement**).

Funds raised through the Placement will be used to farm-in for a 33% participating interest in a soon-to-be-issued PSA in respect of the Gurvantes XXXV as well as general working capital.

As a result of the Placement (including the \$1 million as part of tranche 2 expected to finalise 31 March 2021), Talon will have \$9.5 million cash at bank, and in addition has already completed a \$1 million deposit payment made to Strike Energy Limited to be applied towards drilling at Walyering in the Perth Basin.

UK North Sea

During the year, Talon was awarded three new exploration licences in the UK Central North Sea (UKCS). As part of the UK's 32nd Offshore Licensing Round, Talon submitted a number of bids for Licence Areas identified as having strong exploration potential and that could be acquired with low-cost work program requirements.

Through the Licensing Round, the OGA awarded 113 licences to 65 different companies, demonstrating strong interest and appetite for oil and gas exploration in the UK North Sea.

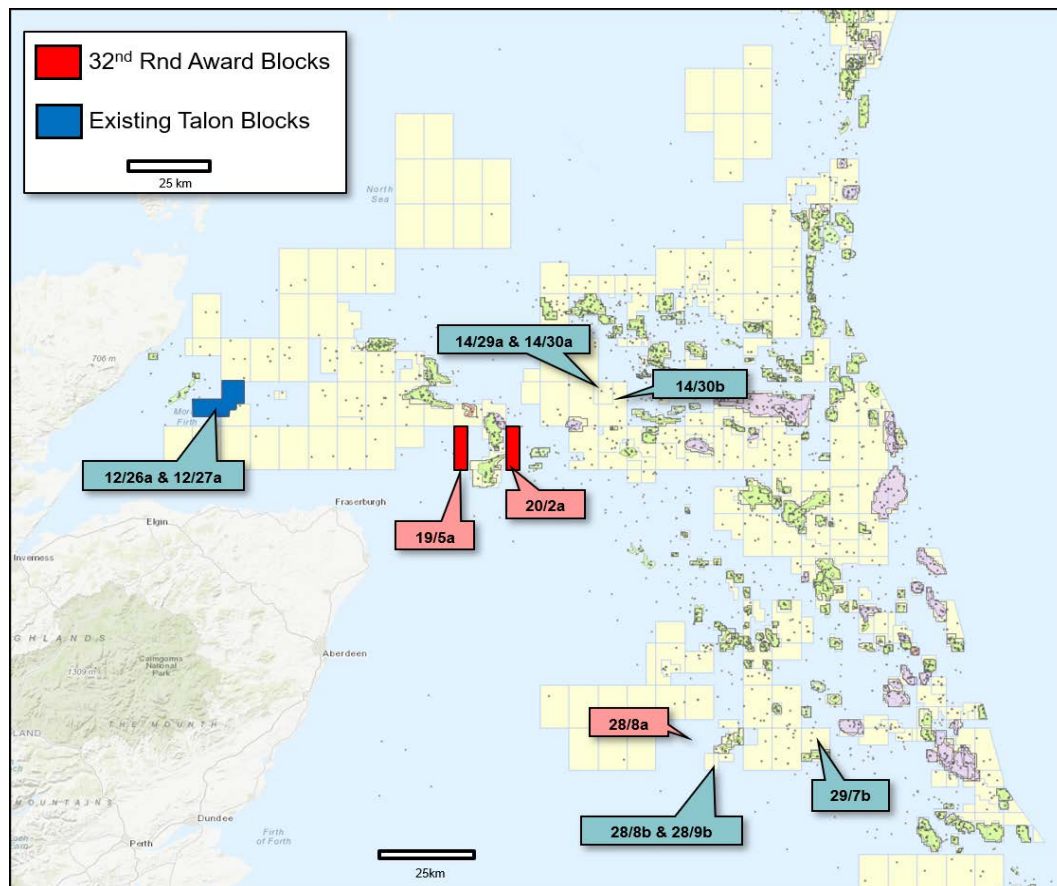
Talon now holds interests in eight exploration and appraisal licences in the UKCS.

Talon remains committed to its UK North Sea exploration portfolio and is continuing with its farm-out efforts on the Skymoos, Rocket and Vantage prospects as well as preparing its newly acquired licences for farmout. The level of interest in the current farm-out process has remained high notwithstanding the challenging macro-economic environment due to the COVID-19 pandemic. However, the timing of any successful farm-out remains uncertain.

Operational Review

Boding well for the process has been the recent recovery and stability in the Brent Crude oil price to over US\$60/bbl, which is generally well above the break-even point for UK North Sea oil projects. With this development, there has been a return of business activity to the region.

Post the end of the Reporting Period, the Company has taken steps to initiate its withdrawal from its 10% interest in Licence 29/7b which contains the Curlew-A discovery. This process is expected to be finalised shortly with no cost to Talon.



Corporate

In September 2020, Talon successfully raised additional capital in amount of \$5 million by way of a placement to institutional and sophisticated investors.

The placement was undertaken at an issue price of \$0.002 per share. New shares will be issued alongside a free attaching option on a 1-for-2 basis, and with an exercise price of \$0.004 expiring on 28 February 2022.

During the year, Mr David Casey was appointed as Managing Director and Mr Douglas Jendry was appointed as Non-Executive Chairman. Mr Peter Stickland and Mr Graham Dorè resigned from the Board. Mr Dorè remains an important figure in the Company, heading up the Company's technical team and UK farm-out efforts.

Mr Casey has a wealth of experience in the oil and gas sector as a geologist and Managing Director/CEO of ASX listed companies. Mr Casey was the former Managing Director and CEO of Eastern Star Gas Limited (ESG) and was instrumental in the appraisal, development and commercialisation of the Narrabri Gas Project in Northern NSW. ESG grew to be an ASX 200 company until it was taken over by Santos Limited for \$924 million. Most recently, Mr Casey was CEO Australia and Asia Pacific at Warrego Energy Limited (ASX:WGO). Warrego is a 50% joint venture partner with Strike in the prolific West Erregulla gas discovery in the Perth Basin.

Operational Review

Mr Jendry has had a distinguished career in the resources sector having worked as a geologist and, over the last 25 years, in various consulting, advisor and director roles with ASX and AIM listed companies. He has broad experience in all aspects of the oil and gas industry and has had significant dealings over the years with brokers, investment bankers and various government authorities alike.

Licence Summary

Project	Location	Block	Status	Beneficial Interest
Walpyring	Perth Basin	EP447	Granted	45%*
Curlew-A	North Sea	29/7b	Granted	10%
Rocket	North Sea	28/8b & 28/9b	Granted	100%
Skymoos	North Sea	14/29a & 14/30a	Granted	100%
Thelma, Louise, Buffalo	North Sea	14/30b	Granted	100%
Vantage	North Sea	12/26a & 12/27a	Granted	100%
Chisum	North Sea	19/5a	Granted	100%
Bluestring/White Bear	North Sea	20/2a	Granted	100%
Carnaby	North Sea	28/8a	Granted	100%

* Awaiting Regulatory approval

Reserves and resources - contingent resources

In conjunction with this Annual Report, a resource report was prepared in February 2019 by an independent third-party firm in accordance with the SPE-PRMS. Estimates of net resources and future revenue are prepared for Low, Best and High. The 31 December 2019 Contingent Resources were assessed by Schlumberger Oilfield UK ("Schlumberger") which meets the requirements of qualified petroleum reserves and resources evaluators (refer to page 62 of this Annual Report for the qualified evaluator statement).

Talon Net Working Interest Contingent Resources (Curlew-A)

	Oil - MMbbl	Gas - Bscf	MMboe (6:1)
Low Estimate – 1C	1.55	2.39	1.95
Best Estimate – 2C	3.62	5.09	4.5
High Estimate – 3C	6.83	7.91	8.15

AGM

The Company's AGM was held on 29 May 2020 and all resolutions were passed and decided by way of poll.

OUTLOOK

The 2020 year was period of strong growth for Talon, with its initial entry into the Perth Basin at Walpyring, the addition of further exploration licences in the UK North Sea and Board transition. Further assets were added in the first half of 2021 in Gervantes XXXV in Mongolia and the Condor Prospect in the Perth Basin.

Operational Review

Successful fund-raising efforts see the company sitting with a strong balance sheet and fully funded for upcoming work programs across its portfolio, due to commence with drilling at Walyering this year. Additionally, with the continued strengthening of the oil price and successful vaccine rollout in the UK, the Company sees the potential for successful conclusions to its UK North Sea farm-out efforts over the course of the year.

The coming period has the potential to be transformational for the Company.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Talon Petroleum Ltd support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Securities Exchange Corporate Governance Council and considers that the Company is compliant with many of those guidelines which are of importance to the commercial operation of the Company. During the financial year, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company.

Details of Talon's current corporate governance practices is set out in Talon's Corporate Governance Plan which can be viewed on the Talon website at www.talonpetroleum.com.au.

Director's Report

The Directors present their report together with the consolidated financial statements of Talon Petroleum Limited ('the Company' or 'Talon') and of the Group, being the Company and the entities it controlled at the end of, or during, the year ended 31 December 2020 and the auditor's report thereon.

DIRECTORS

All Directors have been in office for the entire period unless otherwise stated. The names of the Directors in office at any time during or since the end of the report period are:

Director	Title	Appointment Date
Douglas Jendry	Non-Executive Chairman	13 October 2020
David Casey	Managing Director & CEO	19 July 2020
Matt Worner	Executive Director	4 December 2017 as Director 17 December 2018 Managing Director 12 August 2020 as Executive Director
Stephen Jenkins	Non-Executive Director	7 June 2019
Peter Stickland	Non-Executive Chairman	Resigned 13 October 2020
Graham Doré	Non-Executive Director	Resigned 13 October 2020

COMPANY SECRETARY

Lauren Nelson appointed 15 January 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Group are exploration and evaluation of oil and gas projects. The portfolio of assets focussed on during the year were the Perth Basin assets and the UK North Sea.

FINANCIAL REVIEW

The Group's consolidated loss after tax for the year ended 31 December 2020 was \$1,012,934 (2019: \$1,517,293) with a net cash position at 31 December 2020 of \$4,657,871 (2019: \$1,850,954) and net operating cash outflows of \$826,331 (2019: \$1,469,216).

DIVIDENDS

No dividend has been declared or paid by the Company since the start of the financial period and the Directors do not at present recommend a dividend.

Director's Report

EVENTS SUBSEQUENT TO REPORTING DATE

On 3 February 2021, Talon executed a binding letter with Telmen Resources JSC (Telmen) in respect of a farm-in for a 33% interest in the proposed Gurvantes XXXV Production Sharing Agreement (PSA). The agreed consideration for Talon's entry into Gurvantes XXXV is an initial cash consideration of US\$350,000 with a further committed US\$1,500,000 for an initial work program, which includes drilling of a minimum 4 holes.

Upon completion of this initial work program, the Company has 90 days to elect to terminate the farm-in-agreement or commit to a second work program amounting to US\$3,150,000, after which time costs exceeding this total will be shared between the parties based on their respective participating interests in the project.

With the addition of the Gurvantes XXXV project, the Group completed a capital raising of \$5,000,000 before costs at \$0.004 per share, in March 2021. Furthermore on 25 March 2021, 162,562,500 shares were issued following the exercise of unlisted options at \$0.004 for a total consideration received of \$650,250.

The Group also executed a binding agreement with Macallum Group Ltd on 17 March 2021 to acquire all of the rights and title covering the Muchea Structure in EP494 and SPA-0081. The consideration payable for the acquisition is \$90,000 (paid at the date of this report) and 54,000,000 shares in Talon (Tranche 1). If Talon elects to proceed with a final acquisition, Talon must issue Macallum Group with a further \$350,000 worth of shares (based on 30-day VWAP) and grant to Macallum a 1.95% overriding royalty on production from Muchea. A \$100,000 termination fee is liable if Talon does not elect to proceed with the final acquisition.

In addition to the matters outlined above, the Company held a General Meeting on 26 March 2021 approving the below issues of additional equity instruments:

- The issue of 100,000,000 broker options to third party advisers in relation to the recent capital raising. The options have an exercise price of \$0.006 and an expiry of 28 February 2024.
- The issue of 140,000,000 advisor options issued for corporate advisory services and advisory services relating to agreement signed on the Gurvantes XXXV project. The options have an exercise price of \$0.006 and an expiry date of 28 February 2024.
- Approval for the issue of 60,000,000 incentive options to key management personnel, being Matthew Worner and Douglas Jendry. The options have an exercise price of \$0.006 and an expiry date of 28 February 2024.
- 15,000,000 shares for geological and new venture consultancy services to Roc Doc Pty Ltd.

LIKELY DEVELOPMENTS

Other than as referred to in this report, further information as to likely developments in the operations of the Company and likely results of those operations would, in the opinion of Directors, be speculative.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed elsewhere in this Directors' Report, there have been no significant changes in the state of affairs of the Group during or since the end of the year ended 31 December 2020.

ENVIRONMENTAL REGULATION

The Group is subject to environmental regulations under State and Territory laws in Australia and regulations applicable in the United Kingdom where it holds exploration permits and tenements. The Group is not aware of any breaches of these laws.

SHARE OPTIONS

At the date of this report, unissued shares of the Group under option are:

Number of options	Exercise Price	Expiry Date
1,137,437,500	\$0.004	28/08/2022

Director's Report

PERFORMANCE RIGHTS

At the date of this report, unissued shares of the Group pursuant to performance rights granted under the Company's Share Rights Plan are as follows:

Rights class	Date granted	Expiry date	Number of performance rights
Class A	29 May 2020	30 June 2025	38,750,000
Class B	29 May 2020	30 June 2027	38,750,000
Class C	29 May 2020	30 June 2025	20,000,000
Class D	29 May 2020	30 June 2026	20,000,000
Class E	8 September 2020	30 June 2025	163,839,476
Class F	8 September 2020	30 June 2027	81,919,739
Class G	8 September 2020	30 June 2027	81,919,739

INDEMNIFICATION AND INSURANCE OF OFFICERS

The Company has agreements with each of the Directors and Officers of the Company in office at the date of this report and former Directors indemnifying them to the extent permitted by law against all liabilities incurred in their capacity as officers of the Company and its controlled entities and all reasonable legal costs incurred by any of them in the defence of an action for a liability incurred by that officer. The indemnity continues to have effect when the Directors and Officers cease to hold office.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability as such disclosures are prohibited under the terms of the contract.

DIRECTOR BIOGRAPHIES

Douglas Jendry (Non-Executive Chairman), appointed 13 October 2020

Mr Jendry has had a distinguished career in the resources sector having worked as a geologist and, over the last 25 years, in various consulting, advisor and director roles with ASX and AIM listed companies. He has broad experience in all aspects of the oil and gas industry and has had significant dealings over the years with brokers, investment bankers and various government authorities alike.

Significantly, Mr Jendry has strong experience in the Perth Basin, commencing in the early 1980's when he was involved in the exploration and development of the Mt Horner oil field in the Northern Perth Basin with private company Pacific Basin Exploration.

In 2001 he was involved in the drilling of the Walyering 4 well which, unfortunately, was a dry hole, the reason for which is now known following the interpretation of recently acquired 3D seismic data. Mr Jendry strongly believes in the potential of the Walyering field, in which Talon recently acquired a 45% interest alongside operator Strike Energy Limited.

Interest in shares and options held as at date of this report:

Mr Douglas Jendry & Mrs Julie Jendry <D J Super Fund A/C>

15,000,000 Fully Paid Ordinary Shares

7,500,000 options exercisable at \$0.004 on or before 28 February 2022

20,000,000 unlisted options exercisable at \$0.006 on or before 28 February 2024*

*As approved at the Company's General Meeting held on 26 March 2021, not issued at the date of this report.

Director's Report

David Casey (Managing Director & CEO), appointed 19 July 2020

David graduated with an Honours degree in Geology from the University of Sydney in 1991 and has spent the past 30 years working in the oil and gas industry, in Australia and overseas.

Mr Casey has been actively involved overseeing the start-up, development and sale of successful exploration and production projects. He has managed and evaluated all aspects of conventional and unconventional oil and gas exploration and appraisal, from initial reservoir characterisation and fairway identification, through to drilling, testing and production operations. He has substantial experience managing ASX-listed entities and is well known to the Australian institutional investment community.

He was previously Managing Director of Eastern Star Gas Limited and was responsible for the sale of the company to Santos. Most recently, Mr Casey was Managing Director of Petrel Energy Limited and recently arranged a reverse takeover of Petrel by Warrego Energy Limited.

Interest in shares and options held as at date of this report:

Hayrow Pty Ltd <David Casey Superannuation Fund>

25,000,000 Fully Paid Ordinary Shares

12,500,000 options exercisable at \$0.004 on or before 28 February 2022

D.A. Casey & Associates Pty Limited <David Casey Family A/C>

327,678,954 Incentive Performance Rights

Matthew Worner (Executive Director)

Mr Worner is an experienced oil and gas executive who has worked with ASX and London listed E&P companies in various legal, commercial and new ventures/business development roles. He has overseen the completion of multiple asset acquisitions and divestments the world over, including Asia, Africa, US and Australasia as well as significant experience dealing with joint venture partners, host governments and NOCs in these regions.

Interest in shares and options held as at date of this report:

Mr Matthew McNeill Worner <MM Worner Family A/C>

1,533,333 Fully Paid Ordinary Shares

80,000,000 Performance Rights

Mr Matthew McNeill Worner

40,000,000 options exercisable at \$0.006 on or before 28 February 2024*

*As approved at the Company's General Meeting held on 26 March 2021, not issued at the date of this report.

Stephen Jenkins (Non-Executive Director)

A geologist by profession and with a career spanning 35 years, Mr Jenkins is widely recognised as one of the most capable oil and gas executives in the United Kingdom.

Stephen was founder and CEO of Nautical Petroleum plc, an AIM listed E&P company with a significant portfolio of exploration and appraisal assets in the UK North Sea, including the pre-development projects at the Mariner, Kraken and Catcher Field areas. Having listed on AIM with a single asset in 2005, Nautical Petroleum was acquired by Cairn Energy plc in 2012 for £414 million.

Stephen is currently Chairman of the UK Oil and Gas Independents Association, and Non-Executive Chairman of both Savannah Petroleum plc, an AIM listed E&P company focused on Africa and Terrain Energy a private company with oil and gas interests onshore UK and Germany. Stephen was a founding shareholder and director of EnCounter Oil plc, which was acquired by Talon.

Interest in shares and options held as at date of this report:

Stephen Jenkins

15,000,000 Fully Paid Ordinary Shares

22,500,000 Performance Shares

11,250,000 Performance Rights

Director's Report

DIRECTORS' MEETINGS

The number of board meetings held during the year and for the period to the date of this Financial Report that each Director was entitled to attend and the number of meetings attended by each director was as follows:

	Directors' Meetings	
	Number eligible to attend	Number attended
Douglas Jendry ¹	2	2
David Casey ²	5	5
Matt Worner	7	7
Stephen Jenkins	7	7
Peter Stickland ³	5	5
Graham Dorè ⁴	5	5

¹ Appointed 13 October 2020, ² Appointed 19 July 2020, ³ Resigned 13 October 2020, ⁴ Resigned 13 October 2020

Remuneration Report (Audited)

This report details the nature and amount of remuneration for each key management person of Talon Petroleum Ltd, and for the executives receiving the highest remuneration.

Remuneration Policy

The remuneration policy of Talon Petroleum Ltd has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The Board of Talon Petroleum Ltd believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the Group is as follows:

- Review and approve the Group's recruitment, retention and termination policies and procedures for senior executives to enable the Company to attract and retain executives and Directors who can create value for shareholders.
- Review the on-going appropriateness and relevance of the executive remuneration policy and other executive benefit programs.
- Ensure that remuneration policies fairly and responsibly reward executives having regard to the performance of the Company, the performance of the executive and prevailing remuneration expectations in the market.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Key management personnel are also entitled to participate in the employee share and option arrangements.

All remuneration paid to key management personnel is valued at the cost to the Company and expensed. Shares given to key management personnel are valued as the difference between the market price of those shares and the amount paid by key management personnel. Options are valued using the Black-Scholes methodology.

Director's Report

Remuneration Report (continued)

Performance-based Remuneration

As part of each member of the key management personnel's remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between key management personnel with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the areas each key management personnel are involved in and have a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short- and long-term goals. The level set for each KPI is based on budgeted figures for the group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

Company Performance, Shareholder Wealth and Director and Executive Remuneration

Key Management Personnel Remuneration Policy

The Board's policy for determining the nature and amount of remuneration of key management for the Group is as follows:

The remuneration structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Company. The contracts for service between the Company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future.

NON-EXECUTIVE DIRECTOR REMUNERATION

The Board seeks to set aggregate remuneration for Non-Executive Directors at a level that gives the Company the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is reasonable, competitive and acceptable to shareholders.

Maximum aggregate amount

Aggregate remuneration to Non-Executive Directors approved by the shareholders at the Annual General Meeting on 30 May 2014 is not to exceed \$300,000 per annum unless further approval is obtained.

The Directors agree the amount of remuneration for Non-Executive Directors each year (which cannot exceed the maximum amount determined by shareholders) and the manner in which it is divided between Directors. The Board's current practice is to apportion a higher fee to the Non-Executive Chairman than to the Non-Executive Directors.

The Board encourages Non-Executive Directors to hold shares in the Company (purchased by Directors on market). The Board considers it good governance for a Director to have a stake in the company in which they serve as a Board member.

Director's Report

Remuneration Report (continued)

COMPANY PERFORMANCE

	2020	2019	2018	2017	2016
Net loss after tax	(\$1,012,934)	(\$1,517,293)	(\$932,196)	(\$585,917)	(\$194,854)
Dividends paid or provided	Nil	Nil	Nil	Nil	Nil
Share price at end of year	\$0.004	\$0.0025	\$0.002	\$0.007	\$0.009
Basic earnings per share (cents)	(0.04)	(0.09)	(0.09)	(0.21)	(0.1)
Return on capital employed	(17%)	(65%)	(39%)	(22%)	(21%)

Remuneration

The remuneration of Directors for the year ended 31 December 2020 is detailed in below.

ANNUAL FEES FOR DIRECTORS IN 2020

Director	Date of Letter of Appointment	1 Jan 2020 – 29 Feb 2020	1 Mar 2020 – 31 Aug 2020	1 Sep 2020 – 31 Dec 2020	Date of this report
Douglas Jendry ¹	13 October 2020	-	-	\$48,000	\$48,000
David Casey ²	19 July 2020	-	\$250,000	\$250,000	\$250,000
Matt Worner ³	17 December 2018	\$250,000	\$150,000	\$165,000	\$100,000
Stephen Jenkins	7 June 2019	\$40,000	\$20,000	\$40,000	\$40,000
Peter Stickland ⁴	1 October 2018	\$60,000	\$30,000	\$60,000	-
Graham Doré ⁵	15 May 2019	\$40,000	\$20,000	\$40,000	-

¹ Appointed 13 October 2020

² Appointed 19 July 2020, excludes 9.5% superannuation

³ Fee increased to \$165,000 on 19 July 2020. Fee decreased to \$100,000 on 1 March 2021. Excludes 9.5% superannuation

⁴ Resigned 13 October 2020

⁵ Resigned 13 October 2020

Remuneration may also be in the form of equity-based compensation. Any issue of equity instruments as remuneration is at the discretion of the board.

Superannuation and retirement benefits

Superannuation contributions are made on behalf of Non-Executive Directors in accordance with the Company's statutory superannuation obligations. Non-Executive Directors are not entitled to retirement benefits (other than mandatory statutory entitlements).

Director's Report

Remuneration Report (continued)

REMUNERATION FOR 2020

Remuneration of key management personnel of the Company for the year ended 31 December 2020:

2020	Short-term benefit					Post-employment benefits	Total
	Cash, salary and fees	Bonus	Others	Share based payments	Termination benefits	Superannuation	
Douglas Jendry ¹	12,000	-	-	-	-	-	12,000
David Casey ²	113,225	-	-	155,691	-	10,756	279,672
Matt Worner	173,460	-	-	62,743	-	16,479	252,682
Stephen Jenkins	30,000	-	-	10,895	-	-	40,895
Peter Stickland ³	32,097	-	-	26,700	-	-	58,797
Graham Doré ⁴	21,398	-	-	10,895	-	-	32,293
Total Directors	382,180	-	-	266,924	-	27,235	676,339

¹ Appointed 13 October 2020, ² Appointed 19 July 2020, ³ Resigned 13 October 2020, ⁴ Resigned 13 October 2020

REMUNERATION FOR 2019

2019	Short-term benefit					Post-employment benefits	Total
	Cash, salary & fees	Bonus	Others	Share based payments	Termination benefits	Superannuation	
Peter Stickland	52,500	-	-	-	-	-	52,500
Matt Worner	250,000	-	-	-	-	23,750	273,750
Graham Doré ¹	25,000	-	-	-	-	-	25,000
Stephen Jenkins ²	22,667	-	-	-	-	-	22,667
Roger Steinepreis ³	15,000	-	-	-	-	-	15,000
Peter Love ⁴	6,250	-	-	-	-	-	6,250
Total Directors	371,417	-	-	-	-	23,750	395,167

¹ Appointed 15 May 2019, ² Appointed 7 June 2019, ³ Resigned 30 June 2019, ⁴ Resigned 12 March 2019

Director's Report

Remuneration Report (continued)

OPTION AND SHARE HOLDINGS OF KEY MANAGEMENT PERSONNEL

As at the year end, the relevant beneficial interest of each Director in the ordinary share capital of the Company shown in the register of Directors' shareholdings is as follows:

Directors' and Senior Executives interests in Ordinary Shares

	Year	Shares held at 1 January	Net acquisitions and disposals during the year	Received on exercise of options	Other changes during the year	Shares held at 31 December
Directors						
Douglas Jendry	2020	-	15,000,000	-	-	15,000,000
David Casey	2020	-	-	-	25,000,000	25,000,000
Matthew Worner	2020	1,533,333	-	-	-	1,533,333
	2019	-	-	-	1,533,333	1,533,333
Stephen Jenkins	2020	15,000,000	-	-	-	15,000,000
	2019	-	15,000,000	-	-	15,000,000
Peter Stickland ¹	2020	10,000,000	15,000,000	-	(25,000,000)	-
	2019	-	-	-	10,000,000	10,000,000
Graham Doré ¹	2020	22,000,000	8,000,000	-	(30,000,000)	-
	2019	-	22,000,000	-	-	22,000,000

¹ Resigned 13 October 2020 therefore KMP holding at 31 Dec was nil

UNLISTED OPTIONS

As at year end, the relevant beneficial interest of each Director in unlisted options over ordinary share capital of the Company shown in the register of Directors' unlisted option holdings are as follows:

Directors' and Senior Executives interests in options

	Year	Options held at 1 January	Issued during the year	Exercised, expired or forfeited during the year	Other movement ⁵	Options held at 31 December	% vested and exercisable at 31 December
Directors							
Douglas Jendry ¹	2020	-	7,500,000 ⁴	-	-	7,500,000	-
David Casey ²	2020	-	12,500,000 ⁴	-	-	12,500,000	100%
Matthew Worner	2020	30,000,000	-	30,000,000	-	-	-
	2019	30,000,000	-	-	-	30,000,000	100%
Stephen Jenkins	2020	-	-	-	-	-	-
	2019	-	-	-	-	-	-
Peter Stickland ³	2020	-	5,000,000 ⁴	-	(5,000,000)	-	-
	2019	-	-	-	-	-	-
Graham Doré ³	2020	-	-	-	-	-	-
	2019	-	-	-	-	-	-

¹ Appointed 13 October 2020, ² Appointed 19 July 2020, ³ Resigned 13 October 2020 therefore KMP holding at 31 Dec was nil.

⁴ Free attaching options on Director participation in capital raise on same terms as all other shareholders

Director's Report

Remuneration Report (continued)

PERFORMANCE SHARES

As at year end, the relevant beneficial interest of each Director in the performance share capital of the Company shown in the register of Directors' shareholdings is as follows:

Directors' and Senior Executives interests in Performance Shares

	Year	Shares held at 1 January	Net acquisitions and disposals during the year	Received on exercise of options	Other changes during the year	Performance Shares held at 31 December
Directors						
Douglas Jendry	2020	-	-	-	-	-
David Casey	2020	-	-	-	-	-
Matt Worner	2020	-	-	-	-	-
Stephen Jenkins	2020	22,500,000	-	-	-	22,500,000
	2019	-	22,500,000	-	-	22,500,000
Peter Stickland	2020	-	-	-	-	-
Graham Dorè ¹	2020	108,000,000	-	-	(108,000,000)	-
	2019	-	108,000,000	-	-	108,000,000

¹ Resigned 13 October 2020 therefore KMP holding at 31 Dec was nil

PERFORMANCE RIGHTS

As at year end, the relevant beneficial interest of each Director in the performance rights capital of the Company shown in the register of Directors' shareholdings is as follows:

Directors' and Senior Executives interests in Performance Rights

	Year	Rights held at 1 January	Net acquisitions and disposals during the year	Received on exercise of options	Other changes during the year	Performance Rights held at 31 December
Directors						
Douglas Jendry ¹	2020	-	-	-	-	-
David Casey ²	2020	-	327,678,954	-	-	327,678,954
Matt Worner	2020	-	80,000,000	-	-	80,000,000
Stephen Jenkins	2020	-	11,250,000	-	-	11,250,000
Peter Stickland ³	2020	-	15,000,000	-	(15,000,000)	-
Graham Dorè ³	2020	-	11,250,000	-	(11,250,000)	-

¹ Appointed 13 October 2020, ² Appointed 19 July 2020, ³ Resigned 13 October 2020 therefore KMP holding at 31 Dec was nil

Director's Report

Remuneration Report (continued)

The terms attached to the Rights are summarised in the table below:

Terms	Class A	Class B	Class C	Class D
Number	38,750,000	38,750,000	20,000,000	20,000,000
Valuation Date	29-May-20	29-May-20	29-May-20	29-May-20
Exercise Price	Nil	Nil	Nil	Nil
Barrier Price	\$0.003	\$0.00485	Nil	Nil
Vesting Date	30-Jun-21	30-Jun-21	31-Dec-21	31-Dec-22
Expiry Date	30-Jun-25	30-Jun-27	30-Jun-25	30-Jun-26

The share price milestones attached to Class A and B Rights and operational milestones attached to Class C and D Rights are summarised as follows:

- Class A Rights will vest when the volume weighted average price ("VWAP") of the Company's shares, as traded on the ASX over a 20-day trading period exceeds "Vesting Price A" at any time after the date of the AGM but prior to 30 June 2022. Vesting price A is the greater of \$0.003 and 200% of the 20-day VWAP immediately prior to the date of the AGM, being \$0.00242;
- Class B Rights will vest when the volume weighted average price ("VWAP") of the Company's shares, as traded on the ASX over a 20-day trading period exceeds "Vesting Price B" at any time after the date of the meeting but prior to 30 June 2024. Vesting price B is 400% of the 20-day VWAP immediately prior to the date of the AGM, being \$0.00485;
- Class C Rights will vest when, prior to 31 December 2021 the Company completes a successful farm-out transaction in respect of one of the Company's projects and the Company elects to move into the drilling phase in respect of the licence the subject of the farm-out; and
- Class D Rights will vest when the vesting condition for Class C Rights are satisfied; and prior to 31 December 2022, the Company completes a successful farm-out transaction in respect of one of the Company's projects (not being the project the subject of the satisfaction of the Vesting Condition for the Class C Rights) and the Company elects to move into the drilling phase in respect of the licence the subject of the farm-out.

The Group has estimated expected achievement dates of each class and vested the expense over the vesting period.

The Board resolved for the service condition to be removed from 7,500,000 Class A and Class B rights to Mr Peter Stickland upon his resignation as a Director, to which these rights then vested immediately.

Details on the Rights granted to David Casey are tabled below:

Terms	Class E	Class F	Class G
Number	163,839,476	81,919,739	81,919,739
Valuation Date	8-Sept-20	8-Sept-20	8-Sept-20
Exercise Price	Nil	Nil	Nil
Barrier Price	Nil	\$0.004	\$0.008
Vesting Date	19-Jul-22	19-Jul-22	19-Jul-22
Expiry Date	30-Jun-25	30-Jun-27	30-Jun-27

Director's Report

Remuneration Report (continued)

- Class E Rights will vest upon execution of formal agreements in respect of a farm-in to EP447 containing the Walyering exploration prospect and Completion by the Company of a placement of ordinary shares to raise an amount of not less than \$3 million at \$0.002 per share;
- Class F Rights will vest upon the 20-day volume Weighted average price of the Company's Shares exceeds vesting price A at any time after the date of the shareholder meeting (Meeting) to approve the issue of Performance Rights but prior to 30 June 2022. Vesting Price A is 200% of the Raising Price (i.e. \$0.004 per share);
- Class G Rights will vest upon the 20-day volume Weighted average price of the Company's Shares exceeds Vesting Price B at any time after the date of the shareholder meeting (Meeting) to approve the issue of Performance Rights but prior to 30 June 2024. Vesting Price B is 400% of the Raising Price (i.e. \$0.008 per share).

The Group has estimated expected achievement dates of each class and vested the expense over the vesting period.

Fair value of performance rights granted in the year

The vesting conditions attached to Class A, B, F and G Rights meet the definition of a market condition, as the vesting of the Rights is dependent on the future market price of the Company's ordinary shares; and the vesting conditions attached to Class C, D and E Rights do not meet the definition of a market condition, as the vesting of the Rights is not dependent on the future market price of the Company's ordinary shares. Therefore, in determining the value of the Rights we have used:

- the Hoadley Trading & Investment Tools ("Hoadley") ESO5 option valuation model in valuing the Class A, B, F and G Rights; and
- the Hoadley ESO2 option valuation model in valuing the Class C, D and E Rights.

In addition, the Class A and Class B Rights have service conditions attached to them which requires the Right holder to be employed or engaged as at 30 June 2021, with exception to Peter Stickland as noted above. Class E, F and G Rights require the holder to remain employed up until 19 July 2022.

Rights valuation assumptions in the table below (A-D):

Assumptions	Class A	Class B	Class C	Class D
Valuation Date	29-May-20	29-May-20	29-May-20	29-May-20
Spot Price	\$0.002	\$0.002	\$0.002	\$0.002
Exercise Price	Nil	Nil	Nil	Nil
Expiry Date	30-Jun-25	30-Jun-27	30-Jun-25	30-Jun-26
Barrier Price	\$0.003	\$0.00485	Nil	Nil
Vesting Date	30-Jun-21	30-Jun-21	31-Dec-21	31-Dec-22
Expected Future Volatility	100%	100%	100%	100%

Director's Report

Remuneration Report (continued)

Rights valuation assumptions in the table below (E-G):

Assumptions	Class E	Class F	Class G
Valuation Date	8-Sept-20	8-Sept-20	8-Sept-20
Spot Price	\$0.003	\$0.003	\$0.003
Exercise Price	Nil	Nil	Nil
Expiry Date	30-Jun-25	30-Jun-27	30-Jun-27
Barrier Price	NIL	\$0.004	\$0.008
Vesting Date	19-Jul-22	19-Jul-22	31-Dec-21
Expected Future Volatility	100%	100%	100%

Fair value of the Rights (A-D):

	Class A	Class B	Class C	Class D	Total
Number	38,750,000	38,750,000	20,000,000	20,000,000	117,500,000
Value per Right	\$0.00177	\$0.00179	\$0.002	\$0.002	N/A
Value	\$68,588	\$69,363	\$40,000	\$40,000	\$217,950

Fair value of the Rights (E-G):

	Class E	Class F	Class G	Total
Number	163,839,476	81,919,739	81,919,739	327,678,954
Value per Right	\$0.0030	\$0.0027	\$0.0026	N/A
Value	\$491,518	\$221,183	\$212,991	\$925,693

Director's Report

Remuneration Report (continued)

Transactions with Director related entities

Directors and officers, or their personally related entities, hold positions in other entities that result in them having controls or significant influence over the financial or operating policies of those entities.

Entity	Relationship	Nature of transactions	Transactions		Balances	
			2020 \$	2019 \$	2020 \$	2019 \$
Overlay Capital Pty Ltd	(i)	Reimbursement to Overlay Capital for corporate travel costs	-	313	-	-
Steinepreis Paganin	(ii)	Charges from Steinepreis Paganin for corporate legal costs	-	25,100	-	-
Geoscience Services Limited	(iii)	Reimbursement for corporate administrative and travel costs	105,589	157,500	-	-
Springhead Petroleum Pty Ltd	(iv)	Reimbursement for corporate travel costs	278	6,244	-	-
Graham Dorè	(v)	Loan repayment	-	2,423	-	-
Stephen Jenkin	(v)	Loan repayment	-	1,652	-	-
David Casey	(vi)	Reimbursement for corporate travel costs	1,195	-	-	-
Hedgepig Growth Limited	(vii)	Reimbursement for corporate travel costs	1,656	-	-	-

(i) Overlay Capital Pty Ltd is a company associated with Peter Love who was a Director of the Company, up until his resignation on 12 March 2019

(ii) Steinepreis Paganin is a company associated with Roger Steinepreis who was a Director of the Company, up until his resignation on 30 June 2019

(iii) Geoscience Services Limited is a company associated with Graham Dorè who was a Director of the Company, up until his resignation on 13 October 2020

(iv) Springhead Petroleum Pty Ltd is a company associate with Peter Stickland who was a Director of the Company, up until his resignation on 13 October 2020

(v) Graham Dorè and Stephen Jenkins were Directors of the Company, each with an historic loan held under the Company's newly acquired subsidiary, EnCounter Oil Ltd, which cleared in October 2019.

(vi) David Casey is a Director of the Company, appointed on 19 July 2020.

(vii) Hedgepig Growth Limited is a company associated with Stephen Jenkin who was a Director of the Company.

This is the end of the Remuneration Report.

Director's Report

AUDITOR

BDO Audit (WA) Pty Ltd has been appointed auditor of the Company in accordance with section 327 of the *Corporations Act 2001*.

NON-AUDIT SERVICES

During the current financial year BDO, the Company's auditor did not perform any other services in addition to their statutory duties.

AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration as required under section 307C of the Corporations Act is set out on page 28 of this Annual Report and forms part of the Directors' Report for the year ended 31 December 2020.

Made and signed in accordance with a resolution of Directors.

A handwritten signature in black ink, appearing to read 'Douglas Jendry'.

Douglas Jendry
Non-Executive Chairman
Dated 31 March 2021

DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF TALON PETROLEUM LIMITED

As lead auditor of Talon Petroleum Limited for the year ended 31 December 2020, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Talon Petroleum Limited and the entities it controlled during the period.



Dean Just
Director

BDO Audit (WA) Pty Ltd
Perth, 31 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	Consolidated 2020 \$	Consolidated 2019 \$
Revenue	4	37,879	50,898
Cost of oil and gas sold	5a)	(31,439)	(20,403)
Net margin on sale of oil and gas		6,440	30,495
Other income	5b)	81,166	37,009
Employee benefits		(71,832)	(72,705)
Professional and consultancy fees		(119,424)	(221,656)
Marketing and travel expenses		(43,982)	(192,552)
Corporate expenses		(42,341)	(36,444)
Directors' fees	5c)	(409,415)	(395,167)
Share based payment expense	27	(266,924)	-
Administrative expenses		(61,621)	(96,384)
Exploration expenditure		(216,309)	(428,232)
Impairment expense		(36,207)	(207,543)
Depletion		-	(27,821)
Other expenses		(23,300)	(53,528)
Adjustment of restoration provision	11b)	193,068	149,863
Finance costs		(2,253)	(2,628)
(Loss) before income tax		(1,012,934)	(1,517,293)
Income tax expense	6	-	-
Loss after income tax		(1,012,934)	(1,517,293)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation differences, net of tax		(16,508)	(1,367)
Other comprehensive income/(loss) (net of tax) for the year		(16,508)	(1,367)
Total comprehensive (loss) attributable to owners of the company		(1,029,442)	(1,518,660)
Basic loss per share(cents)	16	(0.04)	(0.09)
Diluted loss per share (cents)	16	(0.04)	(0.09)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	Consolidated 2020 \$	Consolidated 2019 \$
Assets			
Current Assets			
Cash and cash equivalents	7	4,657,871	1,850,954
Trade and other receivables		33,964	81,103
Prepayments		27,063	17,990
Security deposit	8a)	64,872	71,292
Assets held for sale	11a)	-	35,646
Total Current Assets		4,783,770	2,056,985
Non-Current Assets			
Farm-in deposit	8b)	1,000,000	-
Exploration and evaluation asset	10	341,137	341,137
Total Non-Current Assets		1,341,137	341,137
Total Assets		6,124,907	2,398,122
Liabilities			
Current Liabilities			
Trade and other payables	12	143,147	138,107
Provisions		44,769	29,066
Liabilities held for sale	11a)	-	207,275
Total Current Liabilities		187,916	374,448
Total Liabilities		187,916	374,448
Net Assets		5,936,991	2,023,674
Contributed Equity			
Issued share capital	13	42,804,237	38,183,402
Reserves	14	3,162,932	2,857,516
Accumulated losses		(40,030,178)	(39,017,244)
Total Equity		5,936,991	2,023,674

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.



Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Issued share capital	Share based payment reserve	Foreign currency translation reserve	Accumulated losses	Total Equity
	\$	\$	\$	\$	\$
2020					
Balance as at 1 January 2020	38,183,402	200,355	2,657,161	(39,017,244)	2,023,674
Total comprehensive loss for the period					
Loss after income tax expense for the year	-	-	-	(1,012,934)	(1,012,934)
Foreign exchange translation differences	-	-	(16,508)	-	(16,508)
Total comprehensive loss for the year	-	-	(16,508)	(1,012,934)	(1,029,442)
Transaction with owners, recorded directly in equity					
Issue of shares, net of transaction costs	4,620,835	55,000	-	-	4,675,835
Share based payment	-	266,924	-	-	266,904
Balance as at 31 December 2020	42,804,237	522,279	2,640,653	(40,030,178)	5,936,991
	Issued share capital	Share based payment reserve	Foreign currency translation reserve	Accumulated losses	Total Equity
	\$	\$	\$	\$	\$
2019					
Balance as at 1 January 2019	36,726,948	200,355	2,658,528	(37,499,951)	2,085,880
Total comprehensive loss for the period					
Loss after income tax expense for the year	-	-	-	(1,517,293)	(1,517,293)
Foreign exchange translation differences	-	-	(1,367)	-	(1,367)
Total comprehensive loss for the year	-	-	(1,367)	(1,517,293)	(1,518,660)
Transaction with owners, recorded directly in equity					
Issue of shares, net of transaction costs	1,456,662	-	-	-	1,456,662
Payment of unmarketable parcel sales	(208)	-	-	-	(208)
Balance as at 31 December 2019	38,183,402	200,355	2,657,161	(39,017,244)	2,023,674

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	Consolidated 2020 \$	Consolidated 2019 \$
Cash flows from operating activities			
Cash receipts from customers		44,671	44,155
Payments to suppliers and employees		(735,859)	(1,171,539)
Payments for exploration and evaluation expenditure		(216,309)	(378,847)
Interest received		19,044	37,015
Government grants received		62,122	-
Net cash (used in) operating activities	23	(826,331)	(1,469,216)
Cash flows from investing activities			
Proceeds from sale of exploration lease		-	32,443
Deposit for acquisition of exploration and evaluation asset		(1,000,000)	-
Net cash (used in) / from investing activities		(1,000,000)	32,443
Cash flows from financing activities			
Proceeds from the issuance of shares		5,000,000	1,250,000
Share issue costs		(324,165)	(93,338)
Unclaimed small lot process funds		-	(208)
Net cash from financing activities		4,675,835	1,156,454
Net (decrease)/increase in cash and cash equivalents		2,849,504	(280,319)
Cash and cash equivalents at the beginning of period		1,850,954	2,158,297
Effects of exchange rate changes on the balances held in foreign currencies		(42,587)	(27,024)
Cash and cash equivalents at the end of the financial year	7	4,657,871	1,850,954

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

Contents of the Notes to the Consolidated Financial Statements

	Note	Page number
1.	CORPORATE INFORMATION	34
2.	SIGNIFICANT ACCOUNTING POLICIES	34
3.	CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS	37
4.	REVENUE	37
5.	EXPENSES	38
6.	INCOME TAX BENEFIT	38
7.	CASH AND CASH EQUIVALENTS	39
8.	DEPOSITS	40
9.	INTEREST IN JOINT ARRANGEMENTS	40
10.	EXPLORATION AND EVALUATION ASSETS	40
11.	DISPOSAL OF ASSETS	41
12.	TRADE AND OTHER PAYABLES	41
13.	SHARE CAPITAL	42
14.	RESERVES	43
15.	DIVIDENDS	43
16.	LOSS PER SHARE	44
17.	FINANCIAL INSTRUMENTS	46
18.	FAIR VALUE MEASUREMENT	46
19.	CONSOLIDATED ENTITIES	47
20.	SEGMENT REPORTING	47
21.	COMMITMENTS AND CONTINGENCIES	47
22.	SUBSEQUENT EVENTS	48
23.	CASH FLOW INFORMATION	48
24.	AUDITOR'S REMUNERATION	49
25.	PARENT COMPANY DISCLOSURES	49
26.	RELATED PARTIES	49
27.	SHARE BASED PAYMENTS	50

Notes to the Consolidated Financial Statements

1. CORPORATE INFORMATION

Talon Petroleum Limited (the “Company” or “Talon”) is a company incorporated and domiciled in Australia whose shares are publicly listed on the ASX (ASX code: TPD). The Company’s registered office is at 1202 Hay Street, West Perth, WA 6005. The consolidated financial statements of the Company as at and for the year ended 31 December 2020 comprise the Company and its subsidiaries (together referred to as the “Group”). The Group is a for-profit entity whose principal activity during the financial year was to identify and capture new oil and gas assets for the purpose of exploration.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (“AASBs”) adopted by the Australian Accounting Standards Board (“AASB”) and the Corporations Act 2001. The consolidated financial statements of the Group comply with International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board.

The consolidated financial statements were authorised for issue by the Board of Directors on 31 March 2021.

b) Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to realise its assets and extinguish its liabilities in the ordinary course of business.

The Group incurred a loss of \$1,012,934 (2019: \$1,517,293) for the year ended 31 December 2020 and had cash and cash equivalents of \$4,657,871 (2019: \$1,850,954) as at that date, with net cash outflows from operations of \$826,331 (2019: \$1,469,216) for the year.

Based upon the Board approved cash flow forecast the Directors believe that the current cash resources available to the Group will be sufficient to meet the planned operating costs and exploration expenditure for the 12 months from the date of signing this report, which takes into account the capital raising of \$5,000,000 completed subsequent to balance date.

c) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company’s financial statements.

Notes to the Consolidated Financial Statements

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint arrangements are either classified as a joint operation or a joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which only exists when decisions about the relevant activities require the unanimous consent of the parties sharing control. Classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to net assets of the arrangement.

The Company applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture. These judgements take into consideration the rights and obligations provided for by the structure and legal form of the arrangement, the terms agreed to by the parties in the contractual agreement, and, when relevant, other facts and circumstances. These judgements are reassessed and re-evaluated as facts and circumstances change regarding the joint arrangement.

For joint arrangements classified as joint operations, the Company recognises in its financial statements, its proportionate interest in:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

For joint arrangements classified as joint ventures, the Company recognises its interest in the joint venture as an investment and accounts for that investment using equity method accounting as prescribed in AASB 11 Joint Arrangements unless the Company is exempted by a specific exemption according to that Standard.

d) Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost less the provision for impairment. The Group will apply the simplified impairment methodology permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivable trade receivables are generally due for settlement within 60 days from the date of sale. Other receivables are generally settled within 30 days.

e) Exploration and evaluation expenditure

Exploration and evaluation costs are expensed in the year they are incurred apart from acquisition costs which are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Where an area of interest is abandoned or the directors decide that it is not commercial, any accumulated acquisition costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.

Notes to the Consolidated Financial Statements

f) Impairment***Financial assets***

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. AASB 9's new forward looking impairment model applies to investments at amortised cost.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss and are allocated to reduce the carrying amount of the assets in the unit on a pro rata basis.

An impairment loss may be reversed in a future period if there has been a change in the estimates used to determine the recoverable amount. The amount of impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

g) Employee benefits***Short term obligations***

Liabilities for employee benefits for wages and salaries, including non-monetary benefits, annual and personal leave that are expected to be settled within 12 months of the reporting date represent short term obligations resulting from employees' services provided to balance sheet date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at balance sheet date, including related on-costs. Obligations for annual and personal leave are represented as provisions in current liabilities. All other short-term employee benefit obligations are presented with current payables.

Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the statement of comprehensive income as incurred.

Notes to the Consolidated Financial Statements

Long term incentives

The fair value of options granted is recognised as an expense with a corresponding increase in equity (share-based payment reserve). The fair value is measured at grant date and spread over the period during which the employees and vendors become unconditionally entitled to the options. The fair value of the options granted is measured using a valuation technique, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market-related conditions.

h) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

i) New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the Group:

Conceptual Framework for Financial Reporting (Conceptual Framework)

The Group had adopted the revised Conceptual Framework from 1 January 2020. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it has not had a material impact on the Group's financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Judgements and estimates which are material to the financial report are found at the following notes:

- a) Income Taxes** (refer note 6).
- b) Share Based Payments** (refer note 27).
- c) Exploration and Evaluation Assets** (refer note 10).

4. REVENUE

Sale of oil and gas

All revenue is generated from oil sales. Revenue from the sale of produced hydrocarbons is recognised when or as the Group transfers control of goods or services to a customer and can be measured reliably at the amount to which the Group expects to be entitled. Delivery of gas is by pipeline and sales contracts define the point of transfer in ownership.

Notes to the Consolidated Financial Statements

Other income

Other income includes the net gain from the disposal of non-current assets. Proceeds from the disposal of non-current assets are recognised at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

Government grants

Government grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

	Consolidated 2020 \$	Consolidated 2019 \$
Revenue		
Oil sales	31,014	47,785
Gas sales	6,865	3,113
	37,879	50,898

5. EXPENSES

	Consolidated 2020 \$	Consolidated 2019 \$
a) Cost of oil and gas sold		
Production taxes	1,605	2,319
Lease operating expenses, processing and transportation	29,834	18,084
	31,439	20,403
b) Other income		
Interest income	19,044	37,009
Government grants	62,122	-
	81,166	37,009
c) Directors' fees		
Directors' fees	382,180	371,417
Superannuation contribution	27,235	23,750
	409,415	395,167

6. INCOME TAX BENEFIT

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes to the Consolidated Financial Statements

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit/loss, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

	Consolidated 2020 \$	Consolidated 2019 \$
The prima facie tax on profit /(loss) from continuing operations and discontinued operations before income tax is reconciled to the income tax as follows:		
(Loss) before tax	(1,012,934)	(1,517,293)
Prima facie tax payable on (loss) from continuing operations and discontinued operations before income tax at 27.5% (2019:27.5%)	(278,557)	(417,256)
Add:		
<i>Tax effect of:</i>		
Other non-allowable items	83,167	45,405
Difference in tax rates	12,963	40,394
Less:		
<i>Tax effect of:</i>		
Non-assessable items	(17,084)	-
DTA not recognised (losses)	262,107	341,289
DTA not recognised (temporary)	(62,596)	(9,832)
Income tax expense/(benefit)	-	-

Analysis of Deferred Tax Assets

No deferred tax assets have been recognised as yet, other than to offset deferred tax liabilities, as it is currently not probable that future taxable profit will be available to realise the asset. Potential deferred tax assets on carry forward losses amount to \$8,999,733 (2019: \$8,752,968).

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits on call with financial institutions, and other short term, highly liquid investments.

	Consolidated 2020 \$	Consolidated 2019 \$
Cash at bank	4,652,604	381,719
Term deposit	5,267	1,469,235
	4,657,871	1,850,954

Refer to note 18 for details on management of financial risk.

Notes to the Consolidated Financial Statements

8. DEPOSITS

	Consolidated 2020 \$	Consolidated 2019 \$
(a) Current Assets		
Security deposit relating to licences held by Texoz E&P I	64,872	71,292
Balance at 31 December	64,872	71,292
	Consolidated 2020 \$	Consolidated 2019 \$
(b) Non-Current Assets		
Farm-in deposit with Strike Energy ¹	1,000,000	-
Balance at 31 December	1,000,000	71,292

1. Deposit paid to Strike Energy as per Farm-in Agreement signed 11 September 2020. Refer to note 22 for further information. Upon transfer of title in the licence, this amount along with future farm-in amounts will be recognised as an acquisition cost in accordance with the Group's accounting policies.

9. INTEREST IN JOINT ARRANGEMENTS

In accordance with normal industry practice the Group has entered into joint operations arrangements with other parties for the purpose of exploring for and developing petroleum interests. If a party to a joint operation defaults and does not contribute its share of joint operation obligations, then the other joint operation participants may be liable to meet those obligations. In this event the interest in the prospect held by the defaulting party may be redistributed to the remaining joint participants.

Assignment agreements to dispose of its US interests held were signed in the prior year, and occurred early in the 2020 year. As at the date of this report the only operating agreement was with Strike Energy, however 45% interest has not been transferred to the Company. It is anticipated the transfer will occur during April 2021.

10. EXPLORATION AND EVALUATION ASSETS

	Consolidated 2020 \$	Consolidated 2019 \$
Opening net book amount	341,137	-
<i>Addition:</i>		
Asset acquisition	-	341,137
Balance at 31 December	341,137	341,137

There have been no movements since the acquisition date.

Class	# Performance shares	Milestone	Expiry
A	150m	On achieving a farm-in/JV for funding of Skymoos from a Phase A to Phase C program	30/09/2021
B	150m	On achieving a farm-in/JV for funding of Rocket from a Phase A to Phase C program	30/09/2021

Notes to the Consolidated Financial Statements

In determining the fair value of the purchase consideration for the acquisition of EnCounter Oil Limited, the Directors assessed the probability of achieving the respective milestones for the Class A and Class B Performance Shares at the date of issue and the reporting date. It was determined that there was a nil probability of achieving the Class A and Class B milestones at both 31 December 2019 and 31 December 2020. The likelihood of achieving these non-market vesting conditions will be reassessed by the Directors at each reporting date.

The terms and conditions pertaining to the performance shares state that conversion is contingent upon meeting the above milestones; if the milestone is not achieved the amount of performance shares pertaining to the milestone will be redeemed by TPD for \$0.000001 per performance share.

The performance shares are unlisted and gives the holder the rights to attend general meetings of shareholders of Talon, but do not entitle the holder to vote on any resolutions proposed at a general meeting, nor does it entitle the holder to any dividends or participation in any new issues of capital offered to holders of the Ordinary Shares, such as bonus issues and entitlement issues; the shares may not participate in the surplus profits or assets of the Company upon winding up, and they are not transferrable. Upon conversion however, new fully paid ordinary shares issued will rank equally in all respects with fully paid ordinary shares.

11. DISPOSAL OF ASSETS

a)	Consolidated 2020 \$	Consolidated 2019 \$
Assets classified as held for sale		
Opening balance	35,646	-
Transfer from oil & gas properties	-	35,656
(Loss) on sales of exploration lease	(36,207)	-
Foreign currency translation reserve	561	-
Closing balance	-	35,646
Liabilities classified as held for sale		
Opening balance	(207,275)	-
Transfer from restoration provision	-	(207,275)
Gain on sales of exploration lease	210,540	-
Foreign currency translation reserve	(3,265)	-
Closing balance	-	(207,275)

During the prior year the Company entered into an assignment arrangement for its interests held in Wheeler, Quintanilla and Olmos for consideration of USD\$35,000.

b)	Consolidated 2020 \$	Consolidated 2019 \$
Gain on sales of exploration lease	193,068	149,863

12. TRADE AND OTHER PAYABLES

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the reporting period which are unpaid as at the balance sheet date. They are initially recognised at fair value and subsequently measured at amortised cost.

Notes to the Consolidated Financial Statements

	Consolidated 2020 \$	Consolidated 2019 \$
Current		
Trade payable	74,240	111,680
Accruals	35,065	18,872
Other payables	33,842	7,555
	143,147	138,107

Refer to note 17 for details on management of financial risk.

13. SHARE CAPITAL

	Consolidated 2020 Number	Consolidated 2019 Number	Consolidated 2020 \$	Consolidated 2019 \$
Ordinary shares on issue, fully paid	4,351,789,525	1,776,789,525	42,804,237	38,183,402

Movements in ordinary share capital

Date	Details	Number of shares	Issue price	\$
1 Jan 2019	Opening balance	1,260,122,858		36,726,948
18 Mar 2019	Placement to professional and sophisticated investors	416,666,667	0.003	1,250,000
7 May 2019	Repayment of unmarketable small lot fund	-	-	(208)
15 May 2019	Shares issued to vendor	100,000,000	0.003	300,000
	Less: Costs of issue	-	-	(93,338)
31 Dec 2019	Closing Balance	1,776,789,525		38,183,402
29 Jul 2020	Placement to professional and sophisticated investors ¹	444,197,380	0.002	888,395
11 Sept 2020	Placement to professional and sophisticated investors ¹	2,055,802,620	0.002	4,111,605
11 Sept 2020	Shares issued to lead manager ¹	75,000,000	0.003	225,000
	Less: Costs of issue	-	-	(604,165)
31 Dec 2020	Closing balance	4,351,789,525		42,804,237

¹ On 23 July 2020 the Company announced to the ASX that commitments had been received to raise \$5,000,000 at \$0.002 per share. The transaction was completed in two tranches, with Tranche 1 completed on 29 Jul 2020 and the balance issued after shareholder approval on 11 Sept 2020, inclusive of 75,000,000 shares to the lead manager, Chieftain Securities Pty Ltd.

Ordinary shares

Issued and paid up capital is recognised at the fair value of the consideration received by the Group. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Notes to the Consolidated Financial Statements

14. RESERVES**a) Share option reserve**

	Consolidated 2020 \$	Consolidated 2019 \$
Opening balance at the beginning of the year	200,355	200,355
Share options reserve movement during the year	321,904	-
Total share option reserve	522,259	200,355

b) Foreign currency translation reserve**Functional and presentation currency**

Items included in the financial statements of each subsidiary within the Group are measured using the currency of the primary economic environment in which the entity operated (the "functional currency"). The consolidated financial statements are presented in Australian dollars, the functional currency of Talon Petroleum Limited.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group's subsidiaries at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the date the fair value was determined.

Financial statements of foreign operations

The assets and liabilities of foreign operations are translated to Australian Dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian Dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign currency differences are recognised directly in equity in the translation reserve. When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to profit or loss.

Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to the translation reserve. They are released into the statement of comprehensive income upon disposal.

	Consolidated 2020 \$	Consolidated 2019 \$
Opening balance at the beginning of the year	2,657,161	2,658,528
Currency translation differences arising during the year	(16,508)	(1,367)
Total foreign currency translation reserve	2,640,653	2,657,161

The foreign currency translation reserve comprised all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity. Talon has four US based subsidiaries and two UK based subsidiaries (note 19) for which the functional currency is the US dollar and British pounds respectively. Translation into the presentation currency of Australian dollars creates a translation difference that is adjusted to the foreign currency reserve.

Total reserves	3,162,912	2,857,516
-----------------------	------------------	------------------

15. DIVIDENDS

No dividends have been declared, provided for or paid in 2020 (2019: nil). In respect to the payment of dividends by the Company in subsequent reporting periods (if any), no franking credits are currently available.

Notes to the Consolidated Financial Statements

16. LOSS PER SHARE**Basic**

Basic earnings per share is determined by dividing the profit / (loss) attributable to equity holders of the Company excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted

Diluted earnings per share adjusts the amounts used in determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that may arise from the exercise of options outstanding during the financial year. As the Group incurred a net loss in the current and prior year, no options or performance rights have been included in the calculation of diluted earnings per share.

	Consolidated 2020 \$	Consolidated 2019 \$
Basic loss per share (cents)	(0.04)	(0.09)
Diluted loss per share (cents)	(0.04)	(0.09)
Reconciliations of earnings to profit or loss		
Loss used in the calculation of basic and diluted earnings per share	(1,012,934)	(1,517,293)

	Number	Number
Weighted average number of ordinary shares and potential ordinary shares		
Weighted average number of ordinary shares and potential ordinary shares used in calculating basic and diluted loss per share	2,613,418,798	1,652,980,001

17. FINANCIAL INSTRUMENTS**a) Financial Risk Management**

The group's financial instruments consist mainly of cash at bank, payables and receivables.

The group has not formulated any specific management objectives and policies in respect to debt financing, derivatives or hedging activity. As a result, the group has not formulated any specific management objectives and policies in respect to these types of financial instruments. Should the group change its position in the future, a considered summary of these policies will be disclosed at that time.

The Group's current exposure to the risk of changes in the market is managed by the Board of Directors.

Market risks

The Group is exposed to a variety of financial risks through its financial instruments for example, interest rate risk, liquidity risk and credit risk, as well as foreign currency risk.

Interest rate risk

At reporting date, the Group does not have long term borrowings and its exposure to interest rate risk is assessed as low. The risk monitors its interest rate risk through sensitivity analysis, as outlined below.

The consolidated group's exposure to interest rate risk which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets of the group are summarised in the following tables:

Notes to the Consolidated Financial Statements

	Floating interest rate	1 Year or less	Over 1 to 5 years	Non- interest bearing	Remaining contractual maturities	Weighted average interest rate
	\$	\$	\$	\$	\$	%
31 December 2020						
Financial assets						
Cash and cash equivalents	4,657,871	4,657,871	-	-	4,657,871	0.41%
Farm-in deposit	-	-	1,000,000	-	1,000,000	-
Other receivables	-	-	-	33,964	33,964	-
	4,657,871	4,657,871	1,000,000	33,964	5,691,835	
Financial liabilities						
Other payables and sundry accruals	-	-	-	143,147	143,147	-
	-	-	-	143,147	143,147	

	Floating interest rate	1 Year or less	Over 1 to 5 years	Non- interest bearing	Remaining contractual maturities	Weighted average interest rate
	\$	\$	\$	\$	\$	%
31 December 2019						
Financial assets						
Cash and cash equivalents	1,850,954	1,850,954	-	-	1,850,954	2.00%
Other receivables	-	-	-	81,103	81,103	-
	1,850,954	1,850,954	-	81,103	1,932,057	
Financial liabilities						
Other payables and sundry accruals	-	-	-	138,107	138,107	-
	-	-	-	138,107	138,107	

At 31 December 2020, if interest rates had changed by +/-50 (2019: +/- 100) basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been \$23,289 lower/higher (2019: \$18,510).

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation. The group monitors forecast cash flows on regular basis to manage its liquidity risk.

Credit risk

Management has assessed the credit risk exposure as minimal at reporting date. Credit risk arises from exposure to customers and deposits with banks. Management monitors its exposure to ensure recovery and repayment of outstanding amounts. Cash deposits are only made with reputable banking institutions.

Foreign currency risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD (\$) and GBP (£).

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using cash flow forecasting.

Notes to the Consolidated Financial Statements

The consolidated entity has not entered into any derivative financial instruments to hedge such transactions and anticipated future receipts or payments that are denominated in a foreign currency. The board manages the purchase of foreign currency to meet operational requirements.

The consolidated entity's exposure to foreign currency risk at the reporting date was as follows:

	2020	2019
Trade payables in denomination currency		
Trade payables – USD (USD\$)	3,325	3,502
Trade payables – GBP (£)	42,021	50,582
Cash and cash equivalents held in denomination currency		
Cash and cash equivalents – (USD\$)	17,966	55,687
Consolidated entity sensitivity		
Exchange rates per AUD as at 31 December		
GBP (£)	0.5646	0.5319
USD (\$)	0.7707	0.7013

A 10% increase or decrease in value of Australia dollar against the above currencies at 31 December would have an immaterial effect.

b) Fair value measurement of financial instruments

As at the date of this report there were no financial instruments that were measured at fair value.

18. FAIR VALUE MEASUREMENT

Some of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. Significant valuation issues are reported to the Board of Directors.

When measuring the fair value of an asset or liability, the Group uses market observable data to the extent possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Notes to the Consolidated Financial Statements

19. CONSOLIDATED ENTITIES

	Country of Incorporation	Ownership Interest % 2020	Ownership Interest % 2019
Parent entity			
Talon Petroleum Limited	Australia		
Subsidiaries			
Texon I Pty Ltd	Australia	100	100
Rubox Pty Ltd	Australia	100	100
Talon (Aust) Pty Ltd ¹	Australia	100	-
Texoz E&P Holdings I, Inc.	USA	100	100
Texoz E&P Holdings III, Inc.	USA	100	100
Texoz E&P I, Inc.	USA	100	100
Texoz E&P III, Inc.	USA	100	100
Talon Petroleum (UK) Ltd	UK	100	100
EnCounter Oil Ltd	UK	100	100

¹Talon (Aust) Pty Ltd was incorporated during the year, with the intention to be the holder of the Perth Basin assets

In the financial statements of the parent entity, investments in controlled entities are measured at cost.

20. SEGMENT REPORTING

The Group identifies operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to the segments and to assess their performance.

The Group has assessed its presentation of operating segments and determined that the Group's operations comprise one segment, being the exploration and evaluation of oil and gas assets, on the basis that the Group's administrative and corporate activities in Australia do not constitute an operating segment. The results of the segment are the same as those of the Group. With a greater international focus on exploration post balance date, management will review this on an ongoing basis.

21. COMMITMENTS AND CONTINGENCIES

On 11 September 2020, the Group executed a Farm-in agreement with Strike Energy in relation to EP 447. Under the agreement, the Group will receive a 45% interest in EP447 and be committed funding the first \$6,000,000 of a \$9,000,000 exploration programme. The Group paid a deposit amounting to \$1,000,000 into the joint venture bank account which will be used towards the Group's commitment.

It is anticipated this commitment will be incurred within the next 12 months.

Indemnities

Indemnities have been provided to directors and certain executive officers of the Company to the extent permitted by law against all liabilities incurred in their capacity as officers of the Company and its controlled entities and all reasonable legal costs incurred by any of them in the defence of an action for a liability incurred by that officer. No monetary limit applies to these agreements and there are no known obligations outstanding at 31 December 2020 (2019: \$nil).

Guarantees

The Group has provided guarantees and deposits of \$64,872 (2019: \$71,292) in relation to exploration activities in Texas, USA. The Group is in the process of closing its US subsidiaries, and applying to close out the guarantee currently in place.

Litigation

The Group has no outstanding litigation as at 31 December 2020 (2019: \$Nil).

Notes to the Consolidated Financial Statements

22. SUBSEQUENT EVENTS

On 3 February 2021, Talon executed a binding letter with Telmen Resources JSC (Telmen) in respect of a farm-in for a 33% interest in the proposed Gurvantes XXXV Production Sharing Agreement (PSA). The agreed consideration for Talon's entry into Gurvantes XXXV is an initial cash consideration of US\$350,000 with a further committed US\$1,500,000 for an initial work program, which includes drilling of a minimum 4 holes.

Upon completion of this initial work program, the Company has 90 days to elect to terminate the farm-in-agreement or commit to a second work program amounting to US\$3,150,000, after which time costs exceeding this total will be shared between the parties based on their respective participating interests in the project.

With the addition of the Gurvantes XXXV project, the Group completed a capital raising of \$5,000,000 before costs at \$0.004 per share, in March 2021. Furthermore on 25 March 2021, 162,562,500 shares were issued following the exercise of unlisted options at \$0.004 for a total consideration received of \$650,250.

The Group also executed a binding agreement with Macallum Group Ltd on 17 March 2021 to acquire all of the rights and title covering the Muchea Structure in EP494 and SPA-0081. The consideration payable for the acquisition is \$90,000 (paid at the date of this report) and 54,000,000 shares in Talon (Tranche 1). If Talon elects to proceed with a final acquisition, Talon must issue Macallum Group with a further \$350,000 worth of shares (based on 30-day VWAP) and grant to Macallum a 1.95% overriding royalty on production from Muchea. A \$100,000 termination fee is liable if Talon does not elect to proceed with the final acquisition.

In addition to the matters outlined above, the Company held a General Meeting on 26 March 2021 approving the below issues of additional equity instruments:

- The issue of 100,000,000 broker options to third party advisers in relation to the recent capital raising. The options have an exercise price of \$0.006 and an expiry of 28 February 2024.
- The issue of 140,000,000 advisor options issued for corporate advisory services and advisory services relating to agreement signed on the Gurvantes XXXV project. The options have an exercise price of \$0.006 and an expiry date of 28 February 2024.
- Approval for the issue of 60,000,000 incentive options to key management personnel, being Matthew Worner and Douglas Jendry. The options have an exercise price of \$0.006 and an expiry date of 28 February 2024.
- 15,000,000 shares for geological and new venture consultancy services to Roc Doc Pty Ltd.

23. CASH FLOW INFORMATION

	Consolidated 2020 \$	Consolidated 2019 \$
Reconciliation of cashflows from operations with loss after income tax		
(Loss) after income tax	(1,012,934)	(1,517,293)
Cash flows excluded from loss attributable to operating activities		
Non-cash flows in loss:		
Depletion - oil and gas properties	-	27,821
Impairment expense (O&G)	36,207	207,543
Share based payments expense	266,904	-
Adjustment to restoration provisions	(193,068)	-
Net exchange differences	11,311	(36,237)
Changes in assets and liabilities, net of effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and other receivables	44,486	(50,846)
Increase/(decrease) in trade and other payables	20,743	(100,204)
Net cash used in operating activities	826,331	(1,469,216)

Notes to the Consolidated Financial Statements

24. AUDITOR'S REMUNERATION**Audit services:**

Audit fees and review of financial reports – BDO (WA) Pty Ltd

	2020	2019
	\$	\$
	30,254	24,834
	30,254	24,834

25. PARENT COMPANY DISCLOSURES

As at, and throughout, the financial year ended 31 December 2020 the parent entity of the Group was Talon Petroleum Limited.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Talon Petroleum Limited. Dividends received from associates are recognised in the parent entity's statement of profit or loss when its right to receive the dividend is established.

a) Summary of financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2020	2019
	\$	\$
Current assets	4,601,214	1,816,805
Non-current assets	1,444,843	283,653
Total assets	6,046,057	2,100,458
Current liabilities	109,067	76,784
Non-current liabilities	-	-
Total liabilities	109,067	76,784
Share capital	42,804,237	38,183,402
Reserves	522,279	200,355
Accumulated losses	(37,389,526)	(36,360,083)
Total Equity	5,936,990	2,023,674
(Loss) for the year	(1,029,443)	(1,518,660)
Total comprehensive (loss) for the year	(1,029,443)	(1,518,660)

b) Commitments and contingent liabilities of the parent

The parent entity did not have any contingent liabilities or commitments, as at 31 December 2020 (31 December 2019: nil) other than as disclosed at note 21.

c) Guarantees entered into the parent entity

There were no guarantees entered into by the parent entity.

26. RELATED PARTIES**a) Key Management Personnel Remuneration**

Key management personnel compensation, including amounts paid and share-based payments in respect of services provided to the Group, comprised:

Notes to the Consolidated Financial Statements

	Consolidated 2020 \$	Consolidated 2019 \$
Short-term benefits	382,180	371,417
Post-employment benefits	27,235	23,750
Share based payments	266,924	-
	676,339	395,167

b) Transactions with Director related entities

Directors and officers, or their personally related entities, hold positions in other entities that result in them having controls or significant influence over the financial or operating policies of those entities.

Details of the transactions including amounts accrued but unpaid at the end of the year are as follows:

Entity	Relationship	Nature of transactions	Transactions		Balances	
			2020 \$	2019 \$	2020 \$	2019 \$
Overlay Capital Pty Ltd	(i)	Reimbursement to Overlay Capital for corporate travel costs	-	313	-	-
Steinepreis Paganin	(ii)	Charges from Steinepreis Paganin for corporate legal costs	-	25,100	-	-
Geoscience Services Limited	(iii)	Reimbursement for corporate administrative and travel costs	105,589	157,500	-	-
Springhead Petroleum Pty Ltd	(iv)	Reimbursement for corporate travel costs	278	6,244	-	-
Graham Dorè	(v)	Loan repayment	-	2,423	-	-
Stephen Jenkin	(v)	Loan repayment	-	1,652	-	-
David Casey	(vi)	Reimbursement for corporate travel costs	1,195	-	-	-
Hedgepig Growth Limited	(vii)	Reimbursement for corporate travel costs	1,656	-	-	-

(i) Overlay Capital Pty Ltd is a company associated with Peter Love who was a Director of the Company, up until his resignation on 12 March 2019

(ii) Steinepreis Paganin is a company associated with Roger Steinepreis who was a Director of the Company, up until his resignation on 30 June 2019

(iii) Geoscience Services Limited is a company associated with Graham Dorè who was a Director of the Company, up until his resignation on 13 October 2020

(iv) Springhead Petroleum Pty Ltd is a company associate with Peter Stickland who was a Director of the Company, up until his resignation on 13 October 2020

(v) Graham Dorè and Stephen Jenkins were Directors of the Company, each with an historic loan held under the Company's newly acquired subsidiary, EnCounter Oil Ltd, which cleared in October 2019.

(vi) David Casey is a Director of the Company, appointed on 19 July 2020.

(vii) Hedgepig Growth Limited is a company associated with Stephen Jenkin who was a Director of the Company.

c) Other related party transactions

There were no other related party transactions.

27. SHARE BASED PAYMENTS

Share-based payments, including options and performance rights are granted at the discretion of the Board to align the interest of executives, employees and consultants with those of shareholders.

The company granted 117,500,000 Rights in four classes (A-D) to certain Directors of the Company on 29 May 2020, after receiving shareholder approval at the Company's AGM. In addition, 327,678,954 Rights were issued to David Casey across three classes (E-G), after receiving shareholder approval at the Company's General Meeting on 8 September 2020.

The terms attached to the Rights are summarised in the table below:

Notes to the Consolidated Financial Statements

Terms	Class A	Class B	Class C	Class D
Number	38,750,000	38,750,000	20,000,000	20,000,000
Valuation Date	29-May-20	29-May-20	29-May-20	29-May-20
Exercise Price	Nil	Nil	Nil	Nil
Barrier Price	\$0.003	\$0.00485	Nil	Nil
Vesting Date	30-Jun-21	30-Jun-21	31-Dec-21	31-Dec-22
Expiry Date	30-Jun-25	30-Jun-27	30-Jun-25	30-Jun-26

The share price milestones attached to Class A and B Rights and operational milestones attached to Class C and D Rights are summarised as follows:

- Class A Rights will vest when the volume weighted average price ("VWAP") of the Company's shares, as traded on the ASX over a 20-day trading period exceeds "Vesting Price A" at any time after the date of the AGM but prior to 30 June 2022. Vesting price A is the greater of \$0.003 and 200% of the 20-day VWAP immediately prior to the date of the AGM, being \$0.00242;
- Class B Rights will vest when the volume weighted average price ("VWAP") of the Company's shares, as traded on the ASX over a 20-day trading period exceeds "Vesting Price B" at any time after the date of the meeting but prior to 30 June 2024. Vesting price B is 400% of the 20-day VWAP immediately prior to the date of the AGM, being \$0.00485;
- Class C Rights will vest when, prior to 31 December 2021 the Company completes a successful farm-out transaction in respect of one of the Company's projects and the Company elects to move into the drilling phase in respect of the licence the subject of the farm-out; and
- Class D Rights will vest when the vesting condition for Class C Rights are satisfied; and prior to 31 December 2022, the Company completes a successful farm-out transaction in respect of one of the Company's projects (not being the project the subject of the satisfaction of the Vesting Condition for the Class C Rights) and the Company elects to move into the drilling phase in respect of the licence the subject of the farm-out.

The Group has estimated expected achievement dates of each class and vested the expense over the vesting period.

The Board resolved for the service condition to be removed from 7,500,000 Class A and Class B rights to Mr Peter Stickland upon his resignation as a Director, to which these rights then vested immediately.

Details on the Rights granted to David Casey are tabled below:

Terms	Class E	Class F	Class G
Number	163,839,476	81,919,739	81,919,739
Valuation Date	8-Sept-20	8-Sept-20	8-Sept-20
Exercise Price	Nil	Nil	Nil
Barrier Price	Nil	\$0.004	\$0.008
Vesting Date	19-Jul-22	19-Jul-22	19-Jul-22
Expiry Date	30-Jun-25	30-Jun-27	30-Jun-27

Notes to the Consolidated Financial Statements

- Class E Rights will vest upon execution of formal agreements in respect of a farm-in to EP447 containing the Walyering exploration prospect and Completion by the Company of a placement of ordinary shares to raise an amount of not less than \$3 million at \$0.002 per share;
- Class F Rights will vest upon the 20-day volume Weighted average price of the Company's Shares exceeds vesting price A at any time after the date of the shareholder meeting (Meeting) to approve the issue of Performance Rights but prior to 30 June 2022. Vesting Price A is 200% of the Raising Price (i.e. \$0.004 per share);
- Class G Rights will vest upon the 20-day volume Weighted average price of the Company's Shares exceeds Vesting Price B at any time after the date of the shareholder meeting (Meeting) to approve the issue of Performance Rights but prior to 30 June 2024. Vesting Price B is 400% of the Raising Price (i.e. \$0.008 per share).

The Group has estimated expected achievement dates of each class and vested the expense over the vesting period.

Fair value of performance rights granted in the year

The vesting conditions attached to Class A, B, F and G Rights meet the definition of a market condition, as the vesting of the Rights is dependent on the future market price of the Company's ordinary shares; and the vesting conditions attached to Class C, D and E Rights do not meet the definition of a market condition, as the vesting of the Rights is not dependent on the future market price of the Company's ordinary shares. Therefore, in determining the value of the Rights we have used:

- the Hoadley Trading & Investment Tools ("Hoadley") ESO5 option valuation model in valuing the Class A, B, F and G Rights; and
- the Hoadley ESO2 option valuation model in valuing the Class C, D and E Rights.

In addition, the Class A and Class B Rights have service conditions attached to them which requires the Right holder to be employed or engaged as at 30 June 2021, with exception to Peter Stickland as noted above. Class E, F and G Rights require the holder to remain employed up until 19 July 2022.

Rights valuation assumptions in the table below (A-D):

Assumptions	Class A	Class B	Class C	Class D
Valuation Date	29-May-20	29-May-20	29-May-20	29-May-20
Spot Price	\$0.002	\$0.002	\$0.002	\$0.002
Exercise Price	Nil	Nil	Nil	Nil
Expiry Date	30-Jun-25	30-Jun-27	30-Jun-25	30-Jun-26
Barrier Price	\$0.003	\$0.00485	Nil	Nil
Vesting Date	30-Jun-21	30-Jun-21	31-Dec-21	31-Dec-22
Expected Future Volatility	100%	100%	100%	100%

Notes to the Consolidated Financial Statements

Rights valuation assumptions in the table below (E-G):

Assumptions	Class E	Class F	Class G
Valuation Date	8-Sept-20	8-Sept-20	8-Sept-20
Spot Price	\$0.003	\$0.003	\$0.003
Exercise Price	Nil	Nil	Nil
Expiry Date	30-Jun-25	30-Jun-27	30-Jun-27
Barrier Price	NIL	\$0.004	\$0.008
Vesting Date	19-Jul-22	19-Jul-22	31-Dec-21
Expected Future Volatility	100%	100%	100%

Fair value of the Rights (A-D):

	Class A	Class B	Class C	Class D	Total
Number	38,750,000	38,750,000	20,000,000	20,000,000	117,500,000
Value per Right	\$0.00177	\$0.00179	\$0.002	\$0.002	N/A
Value	\$68,588	\$69,363	\$40,000	\$40,000	\$217,950

Fair value of the Rights (E-G):

	Class E	Class F	Class G	Total
Number	163,839,476	81,919,739	81,919,739	327,678,954
Value per Right	\$0.0030	\$0.0027	\$0.0026	N/A
Value	\$491,518	\$221,183	\$212,991	\$925,693

Notes to the Consolidated Financial Statements

In September 2020, 50,000,000 unlisted options were issued to third party advisors directly in relation to the raising of \$5,000,000. These options were valued using a Hoadley ES02 valuation model, with the following table listing the inputs used within the model for the valuation of options:

Valuation date	8 Sept 2020
Expected volatility (%)	100%
Risk-free interest rate (%)	0.25%
Expected life of option (years)	1.47 years
Option exercise price (\$)	\$0.004
Share price at grant date (\$)	\$0.003
Expiry date	28 Feb 22
Valuation of option	\$0.0011
Total value of option	\$55,000

	31-Dec-20	31-Dec- 19
	\$	\$
Broker options	55,000*	-
Performance rights	266,904	-
Total share-based payments recognised in reserves	321,904	-

* recognised as a reduction in share capital as directly attributable to the issue of new capital.

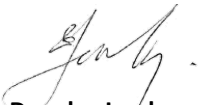
Directors' Declaration

In the opinion of the Directors of Talon Petroleum Limited ("the Company"):

- (a) the consolidated financial statements and notes set out on pages 29 to 54 and the Remuneration Report on pages 17 to 26 of the Directors' Report as set out on pages 13 to 27, are in accordance with the *Corporations Act 2001* (Cth), including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth);
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a);
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* (Cth) for the financial year ended 31 December 2020.

Signed in accordance with a resolution of the Directors.



Douglas Jendry

Non-Executive Chairman

Dated on this 31 day of March 2021

INDEPENDENT AUDITOR'S REPORT

To the members of Talon Petroleum Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Talon Petroleum Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for Share-Based Payments

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>During the financial year ended 31 December 2020, the Group issued options, shares and performance rights to key management personnel and other stakeholders.</p> <p>Refer to Note 27 of the financial report for a description of the accounting policy and significant estimates and judgements applied to these arrangements as well as the disclosure of the arrangements.</p> <p>Share-based payments are a complex accounting area and due to the complex and judgemental estimates used in determining the fair value of the share-based payments in accordance with AASB 2 <i>Share Based Payment</i>, we consider the Group's calculation of the share-based payments expense to be a key audit matter.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Reviewing market announcements and board minutes to identify new share-based payments granted during the year; • Reviewing the relevant supporting documentation to obtain an understanding of the contractual nature and terms and conditions of the share-based payment arrangements; • Evaluating management's methodology for calculating the fair value of the share-based payments; • Recalculating estimated fair value of the share-based payments using relevant valuation methodologies; • Assessing the allocation of the share-based payment expense over management's expected vesting period; • Assessing management's determination of achieving milestones; and • Assessing the adequacy of the related disclosures in Note 27 of the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2020, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 26 of the directors' report for the year ended 31 December 2020.

In our opinion, the Remuneration Report of Talon Petroleum Limited, for the year ended 31 December 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd



Dean Just

Director

Perth, 31 March 2021

Shareholder Information

Talon Petroleum Ltd shares are listed on the Australian Securities Exchange. The Company's ASX code is TPD for Ordinary Shares.

SUBSTANTIAL SHAREHOLDERS (HOLDING NOT LESS THAN 5%)

Name of Shareholder	Total Number of Voting Shares in Talon Petroleum Ltd in which the Substantial Shareholders and its Associates Hold Relevant Interests	Percentage of Total Number of Voting Shares (%)
Treasury Services Group Pty Ltd	320,000,000	5.80

CLASS OF SHARES AND VOTING RIGHTS

At 26 March 2021 there were 1,671 holders of 5,514,352,025 ordinary fully paid shares of the Company. The voting rights attaching to the ordinary shares are in accordance with the Company's Constitution being that:

- each Shareholder entitled to vote may vote in person or by proxy, attorney or Representative;
- on a show of hands, every person present who is a Shareholder or a proxy, attorney or Representative of a shareholder has one vote; and
- on a poll, every person present who is a shareholder or a proxy, attorney or Representative of a shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or Representative, have one vote for the Share, but in respect of partly paid Shares, shall, have such number of votes as bears the proportion which the paid amount (not credited) is of the total amounts paid and payable (excluding amounts credited).

The number of shareholders holding less than a marketable parcel is 257.

UNLISTED SECURITIES AS AT 26 MARCH 2021

Securities	Number of Securities on issue	Number of Holders	Name of Holders holding more than 20%	Number Held
Options exercisable at \$0.004 on or before 28 Feb 2022	1,137,437,500	93	N/A	N/A
Performance Rights	445,178,954	5	D A CASEY & ASSOCIATES PTY LIMITED <DAVID CASEY FAMILY A/C>	327,678,953

CASH USAGE

Since the time of listing on ASX, the entity has used its cash and assets in a form readily converted to cash that it had at the time of admission to the official list of ASX in a manner which is consistent with its business objectives.

Shareholder Information

TOP 20 SHAREHOLDERS AS AT 26 MARCH 2021

Rank	Name	Shares	% of Units
1.	TREASURY SERVICES GROUP PTY LTD <NERO RESOURCE FUND A/C>	320,000,000	5.80
2.	PRECISION OPPORTUNITIES FUND LIMITED <INVESTMENT A/C>	192,363,177	3.49
3.	HOLDREY PTY LTD <DON MATHIESON FAMILY A/C>	105,000,000	1.90
4.	ROOKHARP CAPITAL PTY LIMITED	105,000,000	1.90
5.	VIMINALE PTY LTD <DA PAGANIN FAMILY NO 2 A/C>	104,166,667	1.89
6.	WORKPOWER PTY LTD	104,166,667	1.89
7.	MR MARTIN ROWNEY	104,000,000	1.89
8.	ZERRIN INVESTMENTS PTY LTD	88,250,000	1.60
9.	MAGaurite PTY LTD <PETER NELSON SUPER FUND A/C>	85,000,000	1.54
10.	KINGSLANE PTY LTD <CRANSTON SUPER PENSION A/C>	83,333,333	1.51
11.	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	82,840,859	1.50
12.	ASTUTE CONCEPTS PTY LTD	79,500,000	1.44
13.	GREMAR HOLDINGS PTY LTD	77,000,000	1.40
14.	SMC CAPITAL PTY LTD <SMC CAPITAL A/C>	72,500,000	1.31
15.	HELMET NOMINEES PTY LTD <TIM WEIR FAMILY FUND A/C>	70,666,668	1.28
16.	MR MARK JOHN ALLISON + MRS LORRAINE FRANCES ALLISON <THE M & L ALLISON S/F A/C>	68,300,000	1.24
17.	NORFOLK ENCHANTS PTY LTD <TROJAN RETIREMENT FUND A/C>	68,000,000	1.23
18.	PINE STREET PTY LTD <PINE STREET SUPER FUND A/C>	62,625,000	1.14
19.	JEC CAPITAL PTY LTD <JEC CAPITAL A/C>	60,000,000	1.09
20.	TKPJ PTY LTD	60,000,000	1.09
TOTAL		1,992,712,371	36.14

RANGE OF ORDINARY SHARES AS AT 26 MARCH 2021

Range	Total Holders	Units	%
1 - 1,000	69	10,342	0.00
1,001 - 5,000	28	78,644	0.00
5,001 - 10,000	20	152,695	0.01
10,001 - 100,000	354	23,826,603	0.43
100,001 - 9,999,999,999	1,200	5,490,283,741	99.56
Total	1,671	5,514,352,025	100.00

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
AASB	Australian Accounting Standards Board or, if the context requires, an Australian Accounting Standard adopted by it
AGM	Annual General Meeting
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited (ACN 008 624 691) or, if the context requires, the securities market operated by it
bbl	barrels
bcf	billion cubic feet
bcfe	billion cubic feet equivalent
boe	barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 barrel of oil equivalent)
bopd	barrels of oil per day
bwpd	barrels of water per day
CEO	Chief Executive Officer
Company or Talon	Talon Petroleum Limited (ABN 88 153 229 086)
Constitution	constitution of the Company
Corporations Act	<i>Corporations Act 2001</i> (Cth)
Director	director of the Company
ft	feet
Group	Talon and its subsidiaries
IFRS	International Financial Reporting Standards
KMP	any or all (as the context requires) of the key management personnel, as defined in paragraph 9 of AASB 124 <i>Related Party Disclosures</i> dated December 2009
LTI	long term incentive
m	metres
mbbl	thousand barrels
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
mcfd	thousand cubic feet per day
mcfcpd	thousand cubic feet of gas per day
mmbo	million barrels of oil
mmboe	million barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 boe)
mmcf	million cubic feet
NGL	natural gas liquids
NRI	net revenue interest or share of production after all burdens such as royalties have been deducted from the WI
ORRI	overriding royalty interest, which is a percentage share of production free from all costs of drilling and producing
Q	year quarter
Share	fully paid ordinary share in the capital of the Company
SPE-PRMS	Petroleum Resources Management System 2007, published by the Society of Petroleum Engineers
STI	short term incentive
Texon	Texon Petroleum Ltd (ABN 24 119 737 772)
Texoz	Texoz E&P II, Inc.
TVD	True Vertical Depth
US\$	U.S. dollars
VWAP	volume weighted average price
WI	working interest, a cost bearing interest of an oil and gas project

Qualified Evaluator Statements

Schlumberger Oilfield UK

The information in this report that relates to Contingent Resource information in relation to Curlew-A is based on information compiled by technical employees of independent consultants, Software Information Solutions Schlumberger Oilfield UK and overseen by Mr. Charles M. Boyer II. This information was subsequently reviewed by Mr Paul Senycia BSc (Hons) (Mining Engineering), MAppSc (Exploration Geophysics), who has consented to the inclusion of such information in this report in the form and context in which it appears. Mr Senycia is a consultant to the Company, with more than 30 years relevant experience in the petroleum industry and is a member of The Society of Petroleum Engineers (SPE). The resources included in this report have been prepared using definitions and guidelines consistent with the 2007 Society of Petroleum Engineers (SPE)/World Petroleum Council (WPC)/American Association of Petroleum Geologists (AAPG)/ Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (PRMS). The resources information included in this report are based on, and fairly represents, information and supporting documentation reviewed by Mr Senycia. Mr Senycia is qualified in accordance with the requirements of ASX Listing Rule 5.41 and consents to the inclusion of the information in this report of the matters based on this information in the form and context in which it appears.

Competent Person Statement

The information in this report that relates to Prospective Resource information in relation to the Skymoos and Rocket, Vantage, Thelma, Louise and Buffalo Prospects are based on information compiled by Mr Graham Dore and Mr Paul Young. Mr Dore and Mr Young are each consultant to the Company. Information in this report that relates to Prospective Resource information in relation to the Walyering Prospect and Contingent Resource information in relation to Ocean Hill is based on Prospective Resource and Contingent Resource information compiled by Strike Energy Limited, the operator both EP447 and EP495. Information in this report that relates to Prospective Resource that relates to the Condor Structure is based on information compiled by Mr John Begg and Mr John Lamberto, both consultants to the Company. This information was subsequently reviewed by Mr David Casey BSc (Hons), who has consented to the inclusion of such information in this report in the form and context in which it appears. Mr Casey is a director of the Company, with approximately 30 years relevant experience in the petroleum industry and is a member of The Society of Petroleum Engineers (SPE), the Australian Institute of Mining and Metallurgy (AusIMM) and the Petroleum Exploration Society of Australia. The resources included in this report have been prepared using definitions and guidelines consistent with the 2007 Society of Petroleum Engineers(SPE)/World Petroleum Council(WPC)/American Association of Petroleum Geologists(AAPG)/Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (PRMS).The resources information included in this report are based on, and fairly represents, information and supporting documentation reviewed by Mr Casey. Mr Casey is qualified in accordance with the requirements of ASX Listing Rule 5.41 and consents to the inclusion of the information in this report of the matters based on this information in the form and context in which it appears.

Forward looking statements

This report may contain certain “forward-looking statements” with respect to the financial condition, results of operations and business of the Company and certain plans and objectives of the management of the Company. Forward looking statements can generally be identified by words such as ‘may’, ‘could’, ‘believes’, ‘plan’, ‘will’, ‘likely’, ‘estimates’, ‘targets’, ‘expects’, or ‘intends’ and other similar words that involve risks and uncertainties, which may include, but are not limited to, the outcome and effects of the subject matter of this presentation. Indications of, and guidance on, future exchange rates, capital expenditure, earnings and financial position and performance are also forward-looking statements.