



Talon Energy Ltd
(Formerly Talon Petroleum Limited)
ABN 88 153 229 086

INTERIM FINANCIAL REPORT

30 JUNE 2021

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Corporate Directory

Directors

Douglas Jendry
Non-Executive Chairman

David Casey
Managing Director & CEO

Matt Worner
Executive Director

Stephen Jenkins
Non-Executive Director

Company Secretary

David Lim
Lauren Nelson

**Registered Office and Principal
Place of Business**

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

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

Securities Exchange Listing

Australian Securities Exchange Limited
ASX Code: TPD

Website

www.talonenergy.com.au

Directors' Report

The Board of Directors of Talon Energy Ltd ("Talon", "the Group" or "the Company") has pleasure in presenting its report on the Company for the half-year ended 30 June 2021.

Directors and Company Secretary

The names of the Directors and Company Secretary in office at any time during or since the end of the report period are:

Douglas Jendry	Non-Executive Chairman
David Casey	Managing Director & CEO
Matt Worner	Executive Director
Stephen Jenkins	Non-Executive Director

David Lim	Company Secretary (appointed 1 June 2021)
Lauren Nelson	Company Secretary

Operating Results

During the half-year the Group incurred a loss after income tax of \$2,310,172 (2020: \$174,721), however increased its cash balances to \$9,500,986 (Dec 2020: \$4,657,871).

Dividends Paid or Recommended

No dividends have been paid or declared for payment during the financial period.

Operational Review

During the First Half of FY21 Talon continued to diversify and add to the optionality of its exploration portfolio. The Company now has a material stake in several high impact gas prospects in the rapidly emerging conventional gas province of the Perth Basin and has leveraged Talon's substantial in-house CBM expertise to secure a very prospective opportunity in a prime gas basin in Mongolia. Whilst geographically diverse these new opportunities for Talon are consistent with the Company's focus on selecting exposure to gas prospects in areas of high prospectivity, close to infrastructure and end customers.

With respect to its North Sea acreage, Talon continued to execute on its strategy for delivering long-term shareholder value from its portfolio of assets in the UK North Sea, primarily by progressing farmout processes for the Skymoos, Rocket and Vantage prospects. This process remains ongoing.

Perth Basin

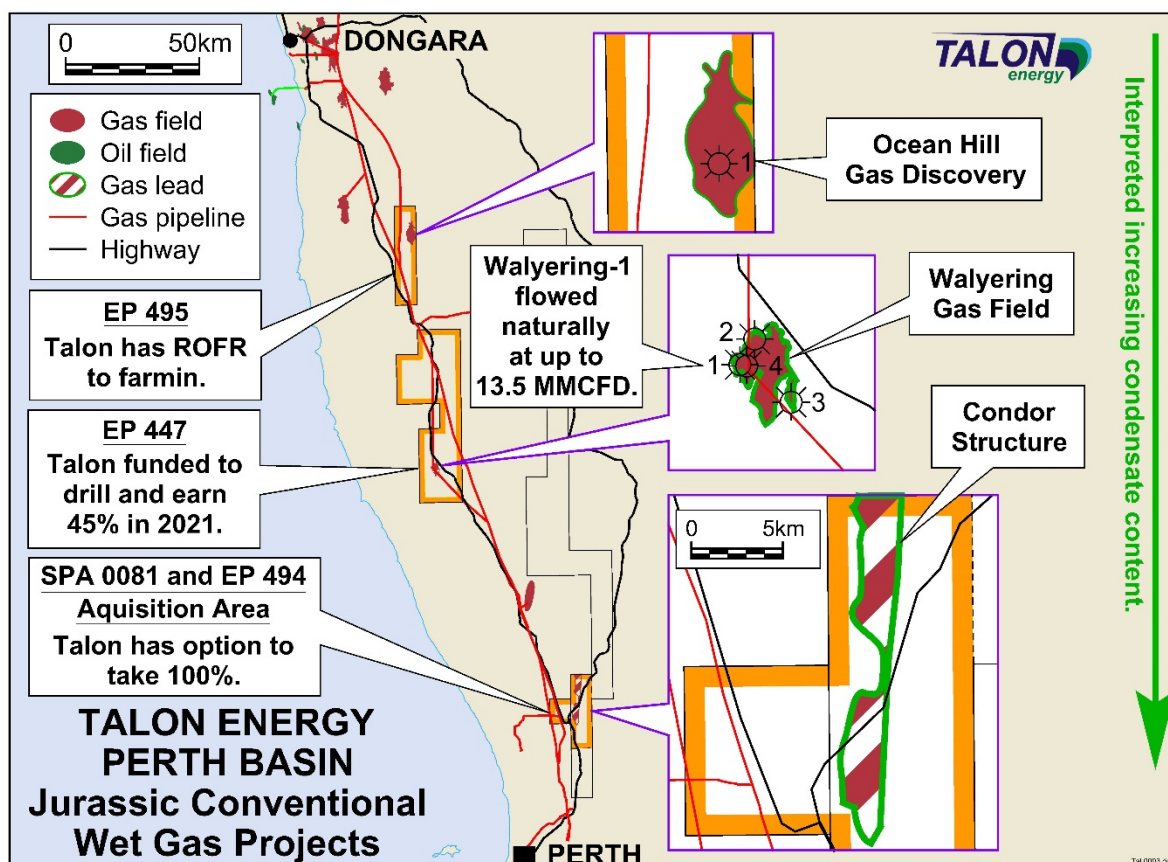


Figure 1: Talon's exposures to the Perth Basin

EP447 - Walyering (45%)

Planning continued during the period for the drilling of the highly anticipated Walyering-5 appraisal well. Walyering is an existing discovery which was flow tested at 13.5MMCFD in Walyering-1. It is ideally located with a proven path to market and, with CO₂ of less than 1%, is possibly the cheapest and cleanest gas to produce in the entire basin. Talon has a 45% interest in the well and is fully funded for its drilling program.

With the drill rig secured and all major agreements and permits in place the well remains on track to be spudded in the September Quarter.

EP494 & SPA-0081 - Condor (earning 100%)

During the period, Talon entered into an agreement with Macallum Group Limited for the option to acquire a 100% interest in the area covering the large, Condor Structure in EP494 and SPA-0081, located onshore Perth Basin.

The selection of Condor follows a continuing strategic review of opportunities in the Perth Basin by Talon. Talon's focus is on the exploration for and appraisal of conventional, gas projects close to pipeline infrastructure.

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In March the Company released its initial estimate of recoverable Prospective Resources over the Condor Structure of 710 BCF (High/P10), 408 BCF (Best/P50) and 202 BCF (Low/P90)¹.

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.

Condor has been mapped by Talon as the Basin's largest, untested Jurassic wet gas structure, and is a high impact prospect which, if matured by our planned work programs, could deliver up to 10 times the resources that Talon is targeting with appraisal drilling at Walying. Additionally, there is potential for the gas composition to contain an even higher, value-adding component of condensate than is projected for Walying. Condor's moderate drill costs, low CO₂ and proximity to key transport and pipeline infrastructure, means it is ideally placed for commercial development in the event of exploration success.

The Company's initial exploration activity around the area of the Condor Structure was completed in June. This initial work consisted of an Airborne Electromagnetic, Transient Pulse (AEM-PTP) survey, with data analysis to be completed in the Sept quarter. The survey data acquired will be used by Talon to better delineate the exciting Condor Structure and help to define the next exploration steps for the prospect. The acquisition of the AEM-PTP survey also satisfies the work program requirement for SPA-0081 which Talon will now have the option to convert, in due course, to a longer tenure, Exploration Permit or EP.

In addition to the Walying and Condor prospects, Talon also has a Right of First Refusal (ROFR) for an interest in EP495 containing the Ocean Hill, conventional Jurassic gas discovery.

Mongolia (earning 33%)

Early in the year, Talon executed an agreement to earn a 33% participating interest in the proposed Gurvantes XXXV Production Sharing Agreement (PSA), located in Mongolia. The permit moved through the approvals process during the June Quarter, and shortly after half-year end Talon received formal notice from Telmen Resources JSC(Telmen), the owner of the Project, that the PSA had received Mongolian Cabinet approval. The parties are now awaiting a formally executed PSA, which is expected in coming weeks.

The Gurvantes XXXV PSA covers a significant area of 8,400km² and is located in what is considered one of the most prospective basins for coal seam gas 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.

The initial work program under the Farm-in Agreement with Telmen, 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.

¹ See ASX announcement: "MAIDEN BEST (P50) RESOURCE OF 408 BCF AT CONDOR", 17 March 2021

Talon and Telmen are currently working on what is expected to be a multi-TCF initial independent Prospective Resource.

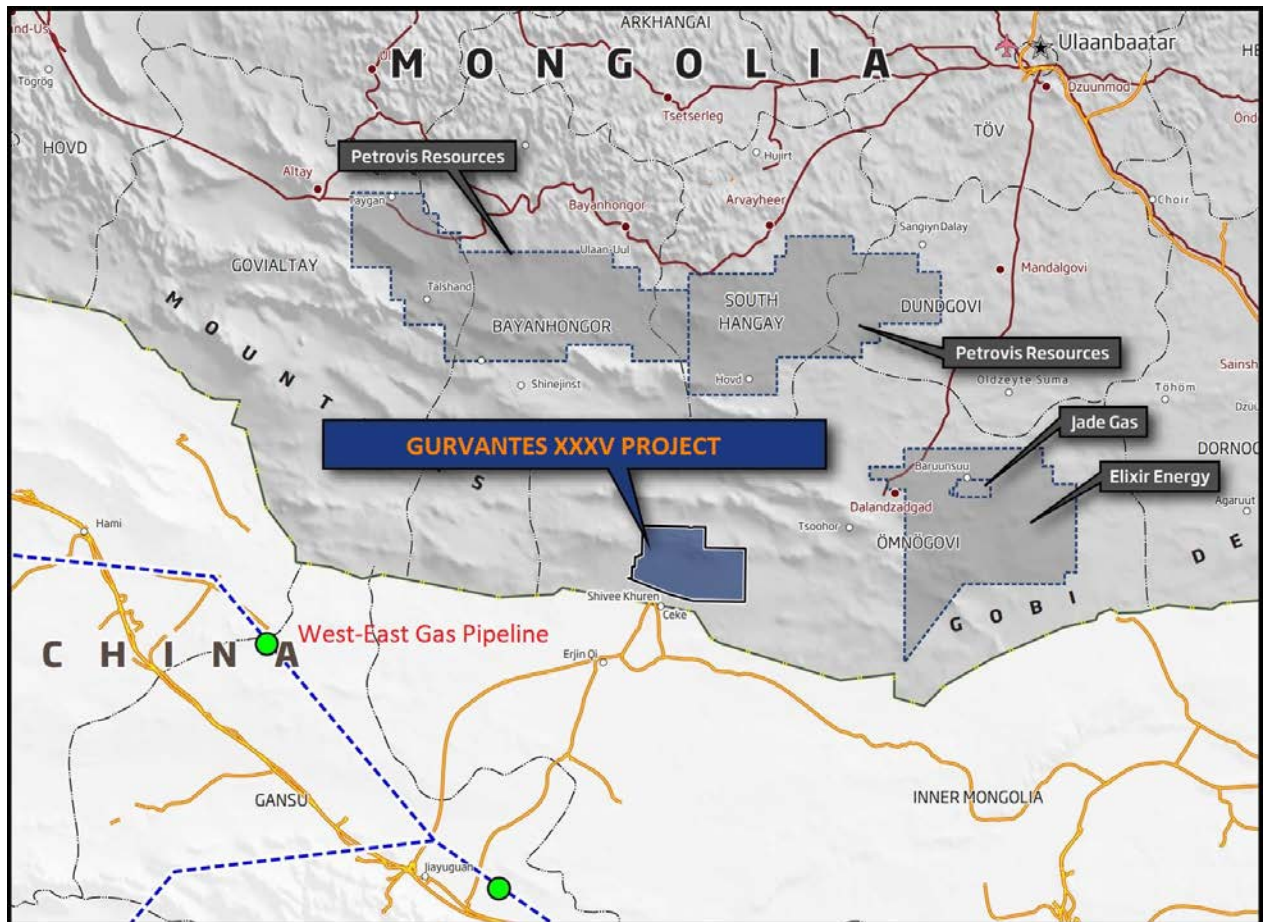


Figure 2: The location of the proposed Gurvantes XXXV PSA in southern Mongolia

UK North Sea

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. The Brent oil price rallied strongly in the half-year, closing at over US\$74/bbl, up approximately 50% since the beginning of the year. The level of engagement and interest remains strong, however the timing of any successful farmout remains uncertain.

Twelve month extensions to the Skymoos and Rocket licences were applied for prior to half-year end, both currently expiring 30 September 2021.

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Oil and Gas blocks held at the end at 30 June 2021:

Project	Location	Tenements/ Blocks	Status	Beneficial Interest
Walayering	Perth Basin	EP447	Granted	45% ¹
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	50%
Chisum	North Sea	19/5a	Granted	100%
Bluestring/White Bear	North Sea	20/2a	Granted	100%
Carnaby	North Sea	28/8a	Granted	100%
Subject to earn-in or under appraisal				
Gurvantes XXXV	Mongolia		Farming-In	0% ²
Condor	Perth Basin	7977,8049,8121 & SPA-0081	Earning in	0% ³

1. Subject to regulatory approvals
2. As detailed in the Activities Report above, Talon executed a binding agreement dated 30 January 2021 with Telmen to earn a 33% interest in the Gurvantes XXXV Production Sharing Agreement. At end of the reporting period no interest, other than the contractual earn in right, had been earned by Talon.
3. In March 2021 Talon entered into an agreement for the option acquire 100% of blocks 7977, 8049 and 8121 located within EP494, and SPA-0081, from Macallum Group Limited. This transaction is subject to a number of Conditions Precedent which had not been satisfied in full at 30 June 2021.

Corporate

As part of its entry into Mongolia, in February 2021 Talon secured firm commitments from new and existing institutional and sophisticated investors to raise \$5m at \$0.004 per share representing a 100% increase in the price at which Talon previously raised equity at in July 2020.

Together with the funds raised from this placement Talon raised a further \$1.384m during the period via the early exercise of options. With a cash balance of \$9.5m Talon remains very well capitalised to support its exploration programs.

Following shareholder approval granted at Talon's AGM the Company changed its name from Talon Petroleum Limited to Talon Energy Ltd. The name change reflects Talon's transition to a more integrated energy company.

Subsequent Events

Subsequent to the end of the period, Talon received formal notification from Telmen Resources JSC that the Gurvantes XXXV coal bed methane Production Sharing Agreement (PSA) with Telmen was approved at a meeting of the Mongolian Cabinet. An executed PSA is expected shortly. Talon Energy Pte Ltd was incorporated on 1 July 2021, a 100% owned subsidiary of Talon, which in turn will hold the interest to the Gurvantes XXXV Project via a Mongolian entity.

As announced to the ASX on 12 July 2021, Talon agreed to issue 100,000,000 options to Telmen Resources for an extension to the exclusivity period. These options will be issued upon execution of legally binding farm-in agreement and joint operating agreement between Talon and Telmen, along with the formal issue of the PSA. Once issued, the options will vest upon

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completion of the initial work program, with an exercise price of \$0.01 and have an expiry 3 years from date of issue.

The Directors are not aware of any other matters or circumstances not otherwise dealt with in this interim report that have significantly, or may significantly affect the operations, results or state of affairs of the Group.

Auditor's Independence Declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 10 for the half-year ended 30 June 2021.

This report is signed in accordance with a resolution of the Board of Directors.



Douglas Jendry
Non-Executive Chairman
Dated 27 July 2021

DECLARATION OF INDEPENDENCE DEAN JUST TO THE DIRECTORS OF TALON ENERGY LTD

As lead auditor for the review of Talon Energy Ltd for the half-year ended 30 June 2021, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Talon Energy Ltd and the entities it controlled during the period.



Dean Just
Director

BDO Audit (WA) Pty Ltd

Perth, 27 July 2021

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Consolidated Interim Financial Report 30 June 2021
Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 30 June 2021

	Note	30-June-21 \$	30-June-20 \$
Revenue		8,222	214
Cost of oil and gas sold		(7,251)	(3,319)
Net gain/(loss) on sale of oil and gas		971	(3,105)
Other income		9,953	9,117
Government grants		-	27,226
Employee benefit expenses		(64,080)	(29,672)
Professional and consultancy fees		(996,591)	(42,530)
Marketing and travel expenses		(89,989)	(20,141)
Corporate expenses		(47,298)	(21,253)
Directors' fees		(247,488)	(147,042)
Administrative expenses		(70,968)	(30,739)
Share based payment expense	6	(612,020)	(14,676)
Exploration expenditure expensed as incurred		(180,641)	(89,581)
Impairment of consideration receivable		-	(38,006)
Other expenses		(24,859)	(5,499)
Gain on sale of Oil and Gas Property		-	231,731
Foreign exchange gain / (loss)		(2,162)	(551)
Loss before income tax		(2,325,172)	(174,721)
Income tax benefit		-	-
Loss after income tax		(2,325,172)	(174,721)
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation differences, net of tax		(576)	(12,200)
Other comprehensive income/(loss) (net of tax) for the period		(576)	(12,200)
Total comprehensive (loss) attributable to owners of the Company		(2,325,748)	(186,921)
		Cents	Cents
Basic earnings / (loss) per share		(0.04)	(0.01)
Diluted earnings / (loss) per share		(0.04)	(0.01)

The accompanying notes form part of these consolidated interim financial statements.

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Consolidated Interim Financial Report 30 June 2021
Consolidated Statement of Financial Position

As at 30 June 2021

	<i>Notes</i>	30 June 2021 \$	31 December 2020 \$
Assets			
Current Assets			
Cash and cash equivalents		9,500,986	4,657,871
Trade and other receivables		67,236	33,964
Prepayments		93,499	27,063
Security deposit	3	66,620	64,872
Total Current Assets		9,728,341	4,783,770
Non-Current Assets			
Deposits	3	1,027,300	1,000,000
Exploration and evaluation assets	4	1,062,637	341,137
Total Non-Current Assets		2,089,937	1,341,137
Total Assets		11,818,278	6,124,907
Liabilities			
Current Liabilities			
Trade and other payables		235,442	143,147
Provisions		54,992	44,769
Total Current Liabilities		290,434	187,916
Total Liabilities		290,434	187,916
Net Assets		11,527,844	5,936,991
Contributed Equity			
Issued share capital	5	48,835,570	42,804,237
Reserves	6	5,047,624	3,162,932
Accumulated losses		(42,355,350)	(40,030,178)
Total Equity		11,527,844	5,936,991

The accompanying notes form part of these consolidated interim financial statements.

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Consolidated Statement of Changes in Equity

For the half-year ended 30 June 2021

	Issued Share capital	Share based payment reserve	Foreign Currency Translation Reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$
Balance at 1 January 2021	42,804,237	522,279	2,640,653	(40,030,178)	5,936,991
Total comprehensive loss for the period					
Loss after income tax expense for the period	-	-	-	(2,325,172)	(2,325,172)
Foreign exchange translation differences	-	-	(576)	-	(576)
Total comprehensive loss for the period	-	-	(576)	(2,325,172)	(2,325,748)
Issue of shares (net of transaction costs)	4,095,333	530,520	-	-	4,625,853
Exercise of options	1,384,000	-	-	-	1,384,000
Acquisition of asset (Condor)	432,000	-	-	-	432,000
Share based payments	120,000	1,354,748	-	-	1,474,748
Balance at 30 June 2021	48,835,570	2,407,547	2,640,077	(42,355,350)	11,527,844
Balance 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 period	-	-	-	(174,721)	(174,721)
Foreign exchange translation differences	-	-	(12,200)	-	(12,200)
Total comprehensive loss for the period	-	-	(12,200)	(174,721)	(186,921)
Issue of shares, net of transaction costs	-	-	-	-	-
Payment of unclaimed small lot process funds	-	14,676	-	-	14,676
Balance at 30 June 2020	38,183,402	215,031	2,644,961	(39,191,965)	1,851,429

The accompanying notes form part of these consolidated interim financial statements.

Consolidated Statement of Cash Flows

For the half-year ended 30 June 2021

	30-June-21	30-June-20 \$
<i>Cash flows from operating activities</i>		
Cash receipts from customers	7,990	7,289
Payments to suppliers and employees	(680,060)	(344,060)
Payment of exploration and evaluation expenditure	(211,941)	(89,581)
Interest received	9,926	9,117
Government grant received	-	27,226
Net cash used in operating activities	(874,085)	(390,009)
<i>Cash flows from investing activities</i>		
Proceeds from sales of exploration lease	-	10,858
Acquisition costs relating to exploration projects	(289,500)	-
Net cash (used in) / provided by investing activities	(289,500)	10,858
<i>Cash flows from financing activities</i>		
Proceeds from the issuance of shares via capital raisings	5,000,000	-
Proceeds from the exercise of options	1,384,000	-
Share issue costs	(374,147)	-
Net cash provided by financing activities	6,009,853	-
Net increase/(decrease) in cash and cash equivalents	4,846,268	(379,151)
Cash and cash equivalents at beginning of period	4,657,871	1,850,954
Foreign exchange movement of cash	(3,153)	(1,905)
Cash and cash equivalents at end of period	9,500,986	1,469,898

The accompanying notes form part of these consolidated interim financial statements.

Notes to the Interim Consolidated Financial Statements

NOTE 1. CORPORATE INFORMATION

The consolidated interim financial report of Talon Energy Ltd ("Talon" or the "Company") and its controlled entities (the "Group") was authorised for issue in accordance with a resolution of the directors dated 27 July 2021.

Talon is a Company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The principal activity of the Group during the half-year was to identify and capture new oil and gas assets for the purpose of exploration.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of Compliance

The consolidated interim financial report is a general-purpose financial report which has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001. The consolidated interim financial report also complies with IAS 34 Interim Financial Reporting.

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated financial report of the Group as at and for the year ended 31 December 2020, and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The consolidated annual financial report of the Group as at and for the year ended 31 December 2020 is available on the Company's website.

b. Basis of Preparation

The condensed financial statements have been prepared on the basis of historical cost, with all amounts presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's annual financial report for the financial year ended 31 December 2020.

c. New and amended accounting standards and interpretations adopted by the Group

The Group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 January 2021.

d. Estimates and Judgements

In preparing these consolidated interim financial statements, significant estimates and judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those that were applied to the consolidated financial statements as at and for the year ended 31 December 2020.

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Notes to the Consolidated Financial Statements

NOTE 3. DEPOSITS

	30 June 2021	31 December 2020
	\$	\$
(a) Current Assets		
Security deposit relating to licences held by Texoz E&P I	66,620	64,872
Closing balance	66,620	64,872
(b) Non-Current Assets		
Farm-in deposit with Strike Energy ¹	1,000,000	1,000,000
Other security deposits in place	27,300	-
Closing balance	1,027,300	1,000,000

1. Deposit paid to Strike Energy as per Farm-in Agreement signed 11 September 2020. 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.

NOTE 4. EXPLORATION AND EVALUATION ASSETS

	30 June 2021	31 December 2020
	\$	\$
Opening net book amount	341,137	341,137
Acquisition costs relating to Gervantes XXXV project ¹	149,978	-
Acquisition costs relating to Condor project ¹	517,522	-
Closing balance	1,008,637	341,137

1. Acquisitions relating to these projects have not been completed, with further farm-in conditions and/or acquisitions costs required prior to legal entitlement. As the agreements give Talon the right to undertake exploration, they have been capitalised in accordance with AASB 6 and the Company's accounting policies.
Refer to note 7 for additional acquisition costs not yet incurred relating to these projects.

NOTE 5. SHARE CAPITAL

	June 2021 Number	December 2020 Number	June 2021 \$	December 2020 \$
Ordinary shares on issue, fully paid	6,016,789,525	4,351,789,525	48,766,570	42,804,237

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Notes to the Consolidated Financial Statements
Movements in ordinary share capital

Date	Details	Number of shares	Issue price	Value \$
1 Jan 2020	Opening balance	1,776,789,525		38,183,402
29 Jul 2020	Placement to professional and sophisticated investors	444,197,380	0.002	888,395
11 Sept 2020	Placement to professional and sophisticated investors	2,055,802,620	0.002	4,111,605
11 Sept 2020	Shares issued to lead manager	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
09 Feb 2021	Placement to professional and sophisticated investors – Tranche 1 ¹	1,000,000,000	0.004	4,000,000
31 Mar 2021	Placement to professional and sophisticated investors – Tranche 2 ¹	250,000,000	0.004	1,000,000
31 Mar 2021	Issued for option to acquire Condor ²	54,000,000	0.008	432,000
31 Mar 2021	Share based payments ³	15,000,000	0.008	120,000
Various	Conversion of \$0.04 options ⁴	346,000,000	0.004	1,384,000
	Less: Costs of issue ⁵			(904,667)
30 June 2021	Closing balance	6,016,789,525		48,835,570

1. On 3 February 2021, the Company announced to the ASX that commitments had been received to raise \$5,000,000 at \$0.004 per share. The transaction was completed in two tranches, with Tranche 1 completed on 9 Feb 2021 and the balance issued after shareholder approval on 31 March 2021.
2. During the period, Talon signed an agreement with Macallum Group Limited for an option to acquire EP494 & SPA-0081(Condor Project). The initial consideration included the issue of 54,000,000 shares subject to shareholder approval, which was received on 26 March 2021.
3. Shares issued to consultant Rock Doc Pty Ltd for services relating to the progressing the Perth Basin projects, including the acquisition of, and screening of future potential acquisitions in licenses in the region.
4. Exercise of \$0.04 options expiring 28 February 2022.
5. Includes the issue of 100,000,000 broker options as referenced in note 6, amounting to \$530,520.

NOTE 6. RESERVES

	30 June 2021 \$	31 December 2020 \$
Foreign currency translation reserve	2,640,077	2,640,653
Share based payment reserve	2,407,547	522,279
Closing balance	5,047,624	3,162,932

The Share-based payments reserve is made up of convertible securities, namely options and performance rights, granted to key management personnel at the discretion of the Board to align the interest of executives, employees and consultants with those of shareholders.

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Notes to the Consolidated Financial Statements

A summary of convertible securities on hand at 30 June 2021 are as follows:

Performance Rights

	Performance Condition	Service Condition	Value per right	Number of Rights	\$ Value	Expensed during the period
Class A*	20-day VWAP above \$0.003 prior to 30 June 2022	30 June 2021	\$0.00177	38,750,000	\$68,588	\$25,218
Class B*	20-day VWAP above \$0.00485 prior to 30 June 2024	30 June 2021	\$0.00179	38,750,000	\$69,363	\$25,503
Class C	Complete a successful farm-out of a project and drilling commencing prior to 31 December 2021	31 December 2021	\$0.002	20,000,000	\$40,000	\$12,461
Class D	Satisfaction of Class C, and Complete an additional successful farm-out of a project and drilling commencing prior to 31 December 2022	31 December 2022	\$0.002	20,000,000	\$40,000	\$7,653
Class E*	Formalise farm-in of Walyering and complete capital raise >\$3m at or above \$0.002 per share	19 July 2022	\$0.003	163,839,476	\$491,518	\$132,037
Class F*	20-day VWAP above \$0.004 prior to 30 June 2022	19 July 2022	\$0.0027	81,919,739	\$221,183	\$59,416
Class G*	20-day VWAP above \$0.008 prior to 30 June 2024	19 July 2022	\$0.0026	81,919,739	\$212,991	\$57,216
				445,178,954		\$319,504

*Performance condition met. Class A and B performance rights remain vested and exercisable at 30 June 2021, any time before 30 June 2025 and 30 June 2027 respectively.

Options

	Opening Balance	Issued / (Lapsed) / (Converted)	Outstanding and exercisable at 30 June 2021	Included in share issue costs during the period	Expensed in professional and consultancy fees during the period	Expensed in share-based payments expenses during the period
\$0.004 expiring 28/02/2022	1,300,000,000	(346,000,000) ¹	954,000,000	n/a	n/a	n/a
\$0.006 expiring 28/02/2024	-	300,000,000 ²	300,000,000	\$530,520	\$742,728	\$292,516
						\$292,516
					Total	\$612,020

TALON ENERGY LTD**Consolidated Interim Financial Report 30 June 2021****Notes to the Consolidated Financial Statements**

1. *Exercised during the period, as outlined in note 5*
2. *Includes the following:*
 - a. *100,000,000 broker options in relation to the \$5m capital raise completed in March 2021;*
 - b. *100,000,000 advisor options to Chieftain Securities Pty Ltd; and*
 - c. *40,000,000 consultancy options issued to Shenton James Pty Ltd*
 - d. *60,000,000 incentive options issued to Matt Worner and Douglas Jendry*

Options issued during the period were valued using a Black-Scholes valuation model, with the following inputs and assumptions:

	Broker/advisor options (a - c)	Director options (d)
Valuation date	26 March 2021	1 April 2021
Expected volatility (%)	100%	100%
Risk-free interest rate (%)	0.10%	0.11%
Expected life of option (years)	2.93 years	2.91 years
Option exercise price (\$)	\$0.006	\$0.006
Share price at grant date (\$)	\$0.008	\$0.0075
Expiry date	28 Feb 24	28 Feb 24
Value per option	\$0.0053	\$0.0049

Reconciliation of share-based payment reserve

	30-Jun-21
	\$
Opening balance	522,279
Options issued to brokers*	530,520
Options issued to advisors/consultants	742,728
Incentive options issued to Directors	292,516
Vesting of performance rights	319,504
Closing balance	2,407,547

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

NOTE 7. COMMITMENTS AND CONTINGENCIES

There have been no significant changes to commitments and contingent liabilities since 31 December 2020, with exception to the following;

- An agreement was executed with Macallum Group Limited during the period, which allows for the acquisition of the Condor Project, being EP494 and SPA-0081 (Mucnea Blocks). Talon has until 17 March 2022 to exercise its option in acquiring a 100% interest in the project, for an additional consideration of \$350,000 worth of Talon Shares and an overriding royalty of 1.95% on all hydrocarbon product sales.
- A binding term sheet was signed with Telmen Resources to farm-in to a 33% interest of the Gurvantes XXXV Project in Mongolia. Upon grant of the Production Sharing Agreement, Talon shall pay Telmen an amount of US\$250,000.

Notes to the Consolidated Financial Statements

Talon has an obligation to fund 100% of the initial drilling campaign (minimum 4 wells) estimated at US\$1.5m, at which point it can terminate the agreement or continue to the next phase of exploration. If Talon continues with the program, it must fund 100% of all costs up to an amount of US\$4.65m.

- In accordance with the Joint Operating Agreement between Talon and Strike Energy (Strike), Strike as the operator have incurred costs that have not been called upon as at 30 June 2021. The intention is that exploration and evaluation costs will be called upon at such time the 45% transfer of licence is completed to Talon's subsidiary, Talon (Aust) Pty Ltd.

NOTE 8. RELATED PARTY TRANSACTIONS

During the period 40,000,000 incentive options were issued to Matt Worner and a further 20,000,000 issued to Douglas Jendry, subsequent to shareholder approval received on 26 March 2021. The options vested immediately with an exercise price of \$0.006, grant date of 1 April 2021 and an expiry date of 28 February 2024. Refer to note 6 for further details.

With exception to the above, there were no other significant changes to related party transactions or balances since 31 December 2020.

NOTE 9. SUBSEQUENT EVENTS

Subsequent to the end of the period, Talon received formal notification from Telmen Resources that the Gurvantes XXXV coal bed methane Production Sharing Agreement (PSA) with Telmen was approved at a meeting of the Mongolian Cabinet. An executed PSA is expected shortly. Talon Energy Pte Ltd was incorporated on 1 July 2021, a 100% owned subsidiary of Talon, which in turn will hold the interest to the Gurvantes XXXV Project via a Mongolian entity.

As announced to the ASX on 12 July 2021, Talon agreed to issue 100,000,000 options to Telmen Resources for an extension to the exclusivity period. These options will be issued upon execution of legally binding farm-in agreement and joint operating agreement between Talon and Telmen, along with the formal issue of the PSA. Once issued, the options will vest upon completion of the initial work program, with an exercise price of \$0.01 and have an expiry 3 years from date of issue.

The Directors are not aware of any other matters or circumstances not otherwise dealt with in this interim report that have significantly, or may significantly affect the operations, results or state of affairs of the Group.

Directors' Declaration

The Directors of the Company declare that:

1. the interim financial statements and notes, are in accordance with the *Corporations Act 2001* and:
 - a) comply with Australian Accounting Standard AASB134 Interim financial reporting and the Corporations Regulations 2001; and
 - b) give a true and fair view of the Consolidated entity's financial position as at 30 June 2021 and its performance for the half-year ended on that date; and
2. in the Directors' opinion 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 is made in accordance with a resolution of the Board of Directors, pursuant to s303(5) of the Corporations Act.



Douglas Jendry
Non-Executive Chairman
Dated 27 July 2021

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Talon Energy Ltd

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Talon Energy Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, 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 half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of 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 the audit of the annual 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 the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the directors for the financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2021 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BDO Audit (WA) Pty Ltd

A handwritten version of the BDO logo, with the letters 'BDO' in a cursive, grey ink style.

A handwritten signature in grey ink, appearing to read 'Dean Just', written over a faint, larger 'BDO' watermark.

Dean Just

Director

Perth, 27 July 2021

Glossary

AASB	Australian Accounting Standards Board or, if the context requires, an Australian Accounting Standard adopted by it
AGM	Annual General Meeting
ASX	ASX Limited (ACN 008 624 691) or, if the context requires, the securities market operated by it
boe	barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 barrel of oil equivalent)
Company or Talon	Talon Energy Ltd (ABN 88 153 229 086)
Corporations Act	<i>Corporations Act 2001</i> (Cth)
Director	director of the Company
Group	Talon and its subsidiaries
m	meters
mbbl	thousand barrels
mboe	thousand barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 boe)
mmbo	million barrels of oil
mmcf	million cubic feet
Share	fully paid ordinary share in the capital of the Company
VWAP	Volume weighted average price
WI	working interest, a cost bearing interest of an oil and gas project