Talon Petroleum Limited

ABN 88 153 229 086

Annual report for the year ended 31 December 2017

Contents

About this report

This report is a summary of Talon's operations, activities and financial position as at 31 December 2017. It complies with Australian reporting requirements. An electronic version of this report is available at www.talonpetroleum.com.au. Printed reports are also available from Talon on request.

CHAIRMAN'S REPORT

2017 again saw strong recovery in oil price, with West Texas Intermediate crude benchmark increasing by around 22% after a 48% gain during the preceding 2016 year. This has seen an increase in interest and investment in the sector, which has been well down in recent years.

The Company continues to manage its MR Olmos Project, onshore Texas to extract value and minimise costs.

Towards the end of 2017, the Company successfully completed a share placement of $2.3 million to new, strategic, high net worth investors. This injection of funds sees Talon well placed to source new assets and take advantage of improved market and investment conditions in the oil and gas sector. At the time of the placement, the Company added two new directors, Roger Steinepreis and Matthew Worner as well as appointing a new Company Secretary, Lauren Nelson and I welcome them all to the Company.

During the year, both Peter Evans and Andrew Crawford stepped down as directors. On behalf of the remaining Board, I wish to thank both Peter and Andrew for their efforts during what has been a challenging period for Talon. We certainly wish them well with what comes next.

The Talon Board looks forward to providing shareholders with positive updates as your revitalised Company progresses into what we hope is a successful 2018.

Peter Love

Peter Love
Chairman

OPERATIONAL REVIEW

1 Highlights during 2017

Highlights during the year 2017 included:

- Steady production from the two vertical and one horizontal wells at the Company's MR Olmos Project
- Successful $2.3 million capital raising in late 2017 sees Talon well placed for future growth in the coming year
- Reinvigorated Board of Directors off the back of capital raising

2 Oil and gas acreage

The Company currently holds a single key asset, the Mosman Rockingham (MR) Olmos Project, an area of approximately 3,620 acres and located in McMullen County, Texas.

The Company operates two vertical wells (the Wheeler #1 and Hoskins #1) and one horizontal well, (the Quintanilla OL 1H) on this acreage. During 2017, Talon's Quintanilla OL 1H (horizontal Olmos) produced 9,350 bo gross (654 bo net to Talon) and 23,177 mcfg gross excluding gas used for gas lift (1,709 mcfg net to Talon). Talon's Wheeler #1 (vertical Olmos) produced 515 bo gross (365 bo net to Talon) while Talon's Hoskins Unit #1 (vertical Olmos) produced 800 bo gross (570 bo net to Talon).

3 Reserves and resources

In conjunction with this Annual Report, a reserve report was prepared as at the end of the year by an independent third party firm in accordance with the SPE-PRMS. Estimates of net reserves and future revenue are prepared for proved, probable and possible categories. The 31 December 2017 reserves were assessed by Netherland, Sewell & Associates, Inc. ("NSAI") which meets the requirements of qualified petroleum reserves and resources evaluators (refer to page 62 of this Annual Report for the qualified evaluator statement).

Listed in Table 1 below are Talon's net reserves as at 31 December 2017 for total proved (1P), proved + probable (2P), and proved + probable + possible (3P).

Total 3P reserves attributable to Talon's NRI were 46 mboe. The reserves, which are all in conventional reservoirs, relate to the Company's Mosman-Rockingham (MR) Olmos project in the state of Texas.

Table 1 - Talon oil and gas reserves (net to Talon's NRI) as at 31 December 2017

	Oil (mbbl)	NGL (mbbl)	Gas (mmcf)	Total (mboe*)
Proved Developed - Producing	3.6	-	3.8	4.2
Proved Developed – Non-producing	24.7	-	5.9	25.7
Total Proved (1P)	**28.3**	**-**	**9.7**	**29.9**
Probable	8.0	-	2.5	8.4
Proved + Probable (2P)	**36.3**	**-**	**12.2**	**38.3**
Possible	7.2	-	3.4	7.8
Proved + Probable + Possible (3P)	**43.5**	**-**	**15.5**	**46.1**

* mboe (thousands of barrels of oil equivalent) comprises gas converted to oil equivalent on the basis of six (6) mcf to one (1) barrel of oil equivalent.
Note that table totals may not add due to rounding.

Table 2 presents a comparison of Talon's oil and gas reserves for the periods ending 31 December 2017 and 31 December 2016. The overall change in net reserves is primarily due to depletion and the impacts of the increase in oil, natural gas liquids and gas prices in the United States.

Table 2 – Comparison of Talon oil and gas reserves (net to Talon's NRI)

	31 Dec 2017 net reserves	31 Dec 2016 net reserves	Difference in net reserves
Proved:			
Oil (mbbl)	28.3	27.8	0.5
Natural gas liquids	-	-	-
Gas (mmcf)	9.7	14.5	(4.8)
Total proved (mboe)	29.9	30.2	(0.3)
Probable:			
Oil (mbbl)	8.0	8.1	(0.1)
Natural gas liquids	-	-	-
Gas (mmcf)	2.5	4.9	(2.4)
Total probable (mboe)	8.4	8.9	(0.5)
Possible:			
Oil (mbbl)	7.2	6.9	0.3
Natural gas liquids	-	-	-
Gas (mmcf)	3.4	4.9	(1.5)
Total possible (mboe)	7.8	7.8	(0.0)
Totals:			
Oil (mbbl)	43.5	42.9	0.6
Natural gas liquids	-	-	-
Gas (mmcf)	15.5	24.3	(8.8)
Total proved, probable and possible (mboe) **	**46.1**	**46.9**	**(0.8)**

**mboe (thousand barrels of oil equivalent) comprises gas converted to oil equivalent on the basis of six (6) mcf to one (1) barrel of oil equivalent.

4. Corporate review

(a) AGM

The Company's AGM was held on 30 May 2017 and all resolutions put to shareholders were passed.

(b) EGM

The Company held an EGM on 4 December 2017 and all resolutions put to shareholders were passed.

5. Outlook

2017 saw continued growth in oil price and investor sentiment towards the oil and gas sector. The Company is actively looking to identify and capture cost effective, value accretive oil and gas assets over the course of 2018.

FINANCIAL REVIEW

The Group's consolidated loss after tax for the year ended 31 December 2017 was $585,917 (2016: $194,584). The Group reported revenue from operations for 2017 of $104,681 (2016: $133,730). During 2017, Talon's Quintanilla OL 1H (horizontal Olmos) produced 9,350 bo gross (654 bo net to Talon) and 23,177 mcfg gross excluding gas used for gas lift (1,709 mcfg net to Talon). Talon's Wheeler #1 (vertical Olmos) produced 515 bo gross (365 bo net to Talon) while Talon's Hoskins Unit #1 (vertical Olmos) produced 800 bo gross (570 bo net to Talon)

Depletion of capital costs made up 44.3% of cost of sales (2016: 44.6%).

Employee benefits and administrative expenses in 2017 were $527,151 (2016: $553,055) which included $62,820 of share based payments expense (2016: $nil).

The Company issued 766,666,667 shares at $0.003 raising $2,300,000 in December 2017.

The Company's net cash position (net of $275,000 of borrowings) at 31 December 2017 was $2,288,685 (31 December 2016: $401,374).

BOARD OF DIRECTORS

Peter Love
Non-Executive Chairman
Age 38

Mr Love is a Director of Overlay Capital, an investment and advisory firm. He is an advisor to Byron Energy Limited. He was Vice President of Operations for Maverick Drilling and Exploration Limited from 2008 to 2011. Prior to this, Peter was Assistant Fund Manager at ASX Listed company Trojan Equity Limited. Peter is also a former director of DMX Corporation Limited and holds a Bachelor of Arts (majoring in English and Political Science) from the University of Queensland.

Mr Love was Chairman of Intrepid Mines Limited until November 2015 to February 2018.

Troy Harry
Non-Executive Director
Age 46

Mr Harry has been involved in stockbroking and investment management for 25 years. In 2003, after more than 10 years in stockbroking, he founded boutique fund manager, Trojan Investment Management Pty Ltd. Troy has previously served on numerous ASX listed company boards, including Villa World Limited and Trojan Equity Limited. These days, Troy is a private investor managing his own capital with a particular focus on the oil and gas sector.

Roger Steinepreis
Non-Executive Director
Age 54

Mr Steinepreis is a lawyer and Chairman of Perth based firm, Steinepreis Paganin. He has practised as a lawyer for over 25 years, acting as legal adviser to a number of public companies on a wide range of corporate related matters. His areas of practice focus on company restructures, initial public offerings and takeovers.

Mr Steinepreis is currently a director of Latitude Consolidated Limited (November 2012 – current) and Apollo Consolidated Limited (August 2009 – current). In the last 3 years Roger was a director of Firestrike Resources Limited (March 2011 – April 2016) and PHW Consolidated Limited (December 2012 – May 2015).

Matthew Worner
Non-Executive Director
Age 42

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.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Talon Petroleum Limited ("Company" or "Talon") is ultimately responsible for all corporate governance matters of the consolidated entity and is accountable to the shareholders for the overall business performance of the Company.

The Company is committed to implementing and maintaining sound corporate governance practices and has considered the *ASX Corporate Governance Principles and Recommendations (3rd Edition)* ("ASX Principles and Recommendations") in the development of its corporate governance. The Board has assessed the Company's current practice against these Principles and Recommendations. The Appendix 4G lodged with ASX at the same time as this annual report includes an annexure showing how the Company complies with the ASX Principles and Recommendations as at 29 March 2018. The Board endorses a culture of continuous improvement and therefore continues to refine and develop its governance policies and practices to meet the needs of the business and the interests of shareholders.

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017 and the auditor's report thereon.

1 Directors

Peter Love - Non-Executive Chairman was a director for the whole of the 2017 financial year and continues in office at the date of this report.

Troy Harry - was appointed as a non-executive director on 31 July 2017 and continues in office at the date of this report.

Roger Steinepreis - was appointed as a non-executive director on 4 December 2017 and continues in office at the date of this report.

Matthew Worner - was appointed as a non-executive director on 4 December 2017 and continues in office at the date of this report.

Peter Evans - was a non-executive director from the beginning of the 2017 financial year until his resignation on 4 December 2017.

Andrew Crawford - was a non-executive director from the beginning of the 2017 financial year until his resignation on 28 July 2017.

Details of the qualifications, experience and responsibilities of the Directors are set out on page 8 of this Annual Report.

2 Company Secretary

The company secretary at the date of this report is Lauren Nelson. Miss Nelson was appointed as Company Secretary 15 January 2018. Miss Nelson has 7 years' experience as a Company Secretary on both private and public companies, working on acquisitions, capital raisings listing of companies on ASX and due diligence reviews.

3 Principal activities

The principal activity of the Group during the financial year was to develop and produce petroleum resources in the USA. The Group's presentation currency is Australian dollars ($).

4 Operating and financial review

A detailed analysis of the financial performance of the Group is set out in the Financial Review and Operations Review sections set out on pages 3 to 6 of this Annual Report.

The Group's consolidated loss after tax for the year ended 31 December 2017 was $585,917 (2016: $194,584). The Group's total revenue for the year was $104,681 (2016: $133,730). At 31 December 2017 the Group's cash balance was $2,563,685 (2016: $401,374). The major component of the loss was administrative and other expenses of $382,874 (2016: $473,055).

5 Dividends

No dividends have been declared, provided for or paid during or since the end of the year ended 31 December 2017.

6 Significant events after the reporting date

In January 2018 the Company repaid the $275,000 unsecured loan outstanding at 31 December 2017. The Company also paid an amount of $25,000 as consideration for full and final settlement of all interest and establishment fee obligations due on this $275,000 unsecured loan facility.

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

7 Likely developments

Information on the strategy, prospects and risks of the group is included in the Financial Review and Operations Review sections set out on pages 3 to 6 of this annual report.

8 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 2017.

9 Environmental regulation

The Company's operations are all located in the USA state of Texas and are therefore not subject to any environmental regulation under either Australian Commonwealth or state legislation. However, the Company is subject to extensive federal, state, local and foreign laws and regulations in Texas and the USA generally and the Board has adequate systems in place for the management of its environmental requirements in Texas and is not aware of any breach of these requirements.

10 Share options

Unissued Shares

At the date of this report there are 183,336 unissued Shares of the Company under unlisted options with an exercise price of $0.0675 and an expiry date of 7 March 2019.

At the date of this report there are 90,000,000 unissued Shares of the Company under unlisted options with an exercise price of $0.005 and an expiry date of 31 December 2020.

Shares issued as a result of the exercise of options

During or since the end of the year ended 31 December 2017, no shares were issued by the Company as a result of the exercise of options.

11 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.

12 Directors' meetings

Attendance at Board meetings for the year ended 31 December 2017 is set out in Table 4 below:

Table 4: Details of Board meetings attendance

	Board of Directors	
No. of meetings held	**A**	**B**
Peter Love	6	6
Troy Harry (appointed 31 July 2017)	2	2
Roger Steinepreis (appointed 4 December 2017)	-	-
Matthew Worner (appointed 4 December 2017)	-	-
Peter Evans (resigned 4 December 2017)	6	6
Andrew Crawford (resigned 28 July 2017)	4	4

A = number of meetings attended.
B = number of meetings held during the time the Director held office during the year.

13 Remuneration report – audited

The Directors of the Company present the Remuneration Report for the consolidated entity for the year ended 31 December 2017. The information provided in this report has been audited as required by section 308(3C) of the *Corporations Act 2001* (Cth) ("Corporations Act") and forms part of the Directors' Report.

The remuneration report outlines Talon's key remuneration activities in 2017 and remuneration information pertaining to the Company's Directors, who are the Key Management Personnel of the consolidated entity for the purposes of the Corporations Act and the AASBs.

13.1 Remuneration strategy

In the current oil price environment the Company has maintained a continued focus on minimising overhead costs.

As the Company did not employ any Senior Executives or a CEO during the 2017 financial year, and does not employ any Senior Executives or a CEO at the date of this report, the framework for remuneration for Senior Executives or a CEO is not relevant at this time.

Should an opportunity present itself to enhance the value of the Company that requires the appointment of a CEO and/or Senior Executives, the Company will look to promote shareholder returns by:

- aligning remuneration outcomes with both financial and non-financial, strategic, operational and financial goals;
- rewarding performance fairly and reasonably; and
- striking a balance between short term and long term growth-related objectives, and providing an incentive for superior performance without encouraging irresponsible risk taking.

13.2 Remuneration governance

As announced to the market 27 February 2015, the Remuneration Committee was disbanded in February 2015. The Board determined that for a small company that had three directors at the time, the Committee served no useful purpose and may in fact impede the efficient and effective operation of the Board. The matters previously within the purview of this Committee will now be addressed by the full Board, subject to appropriate procedures to manage conflicts of interest.

13.3 Link between Company performance and remuneration

2017 Company performance

Talon's financial performance and the resultant consequences for shareholder return are demonstrated in Table 5 below. The Board has taken these results into consideration when making decisions relating to the remuneration of key management personnel during the period.

During the financial year ended 31 December 2017 the Company issued 30,000,000 unlisted options with an exercise price of $0.005 expiring 31 December 2020 to Mr Worner as an incentive payment to seek new investment opportunities for the Company. The 30,000,000 options were issued on 22 December 2017 following approval at the Company's shareholder meeting held 4 December 2017. Refer to note 14 for further information on the fair value of options issued. There were no other long term incentives issued to key management personnel during the financial years ended 31 December 2016 or 31 December 2017.

There were no short term incentives paid to key management personnel during the 2016 or 2017 years.

Table 5: Company performance

	2017	**2016**	**2015**	**2014**	**2013**
Net loss after tax	$(585,917)	$(194,854)	$(2,272,874)	$(12,041,928)	$(11,524,142)
Dividends paid or provided	Nil	Nil	Nil	Nil	Nil
Share price at end of year	$0.007	$0.009	$0.009	$0.013	$0.030
Basic earnings per share (cents)	(0.21)	(0.1)	(1.0)	(8.70)	(11.70)
Return on capital employed	(22%)	(21%)	(178%)	(439%)	(87%)

13.4 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.

Remuneration

The remuneration of Non-Executive Directors for the year ended 31 December 2017 is detailed in Table 6.

Table 6: Annual fees for Non-Executive Directors in 2017[1]

	Chair	Member
Board	$40,000 p.a.	$20,000 p.a.

[1] Fees are shown inclusive of superannuation where applicable.

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).

13.5 Company secretary remuneration

Mr Crawford was the company secretary from the beginning of the 2017 financial year until his resignation on 28 July 2017. Mr Crawford was paid $20,365 for this period (equivalent of A$35,400 per annum). Mr Crawford was not entitled to any short term or long term incentives for this role with all remuneration fixed.

Mr Love was appointed as company secretary on 31 July 2017 and resigned from this role on 15 January 2018. Mr Love did not receive any additional remuneration for his services as company secretary in addition to the remuneration he received for his role as Non-Executive Chairman of the Company.

Miss Nelson was appointed as company secretary on 15 January 2018 and continues in this office at the date of this report. Miss Nelson is not considered part of the Group's Key Management Personnel.

13.6 Detailed remuneration information

Non-Executive Directors 2017 remuneration

Table 7 presents summarised details of the remuneration for the Non-Executive Directors in 2017 as required under the Corporations Act. There were no additional key management personnel to report for the 2017 year.

Table 7: Non-Executive Directors 2017 remuneration details

			Short Term		Post-employment		Share-based payments		% of total remuneration at risk subject to:
Directors and Company Secretary	**Year**	**Salary & Directors Fees**	**Bonus**	**Non-monetary benefits**	**Pension and Superannuation**	**Termination**	**Options**	**Total**	**Performance**
		$	**$**	**$**	**$**	**$**	**$**	**$**	**%**
Peter Love *Chairman and Non-Executive Director*	2017	36,530	-	-	3,470	-	-	40,000	0%
Troy Harry *Non-Executive Director (appointed 31 July 2017)*	2017	8,388	-	-	-	-	-	8,388	0%
Roger Steinepreis *Non-Executive Director (appointed 4 December 2017)*	2017	1,505	-	-	-	-	26,175(1)	27,680	0%
Matthew Worner *Non-Executive Director (appointed 4 December 2017)*	2017	1,505	-	-	-	-	62,820	64,325	0%
Peter Evans *Non-Executive Director (resigned 4 December 2017)*	2017	16,943	-	-	1,610	-	-	18,553	0%
Andrew Crawford *Non-Executive Director and Company Secretary (resigned 28 July 2017)*	2017	30,872	-	-	998	-	-	31,870	0%
Subtotal Directors and Company Secretary	**2017**	**95,743**	**-**	**-**	**6,078**	**-**	**88,995**	**190,816**	

(1) 12,500,000 options were issued to Mr Roger Steinepreis for services provided in relation to the Company's equity raising in December 2017. Refer note 14.

Detailed remuneration information (continued)

CEO and Non-Executive Directors 2016 remuneration
Table 8 presents summarised details of the remuneration for the CEO and Non-Executive Directors in 2016 as required under the Corporations Act.

Table 8: Non-Executive Directors 2016 remuneration details

		Short Term			Post-employment		Share-based payments		% of total remuneration at risk subject to:
Directors and Company Secretary	**Year**	**Salary & Directors Fees**	**Bonus**	**Non-monetary benefits**	**Pension and Superannuation**	**Termination**	**Options**	**Total**	**Performance**
		$	**$**	**$**	**$**	**$**	**$**	**$**	**%**
Peter Love *Chairman and Non-Executive Director*	2016	36,530	-	-	3,470	-	-	40,000	0%
Peter Evans *Non-Executive Director*	2016	18,265	-	-	1,735	-	-	20,000	0%
Andrew Crawford *Non-Executive Director and Company Secretary*	2016	53,665	-	-	1,735	-	-	55,400	0%
Subtotal Directors and Company Secretary	**2016**	**108,460**	**-**	**-**	**6,940**	**-**	**-**	**115,400**	

13.7 Equity instruments held by key management personnel

As at the date of this report, the interests of the Directors and Senior Executives in the shares and options of the Company were as follows:

Table 9: Directors' and Senior Executives interests in 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
Current Directors						
Peter Love	2017	27,253,382	-	-	-	27,253,382
	2016	27,253,382	-	-	-	27,253,382
Troy Harry (appointed 31 July 2017)	2017	-	99,999,999	-	56,433,744(1)	156,433,743
Roger Steinepreis (appointed 4 December 2017)	2017	-	66,666,667	-	-	66,666,667
Peter Evans (resigned 4 December 2017)	2017	11,583,189	-	-	(11,583,189)(2)	N/A
	2016	11,583,189	-	-	-	11,583,189

(1) Balance of shares on appointment date.
(2) Balance of shares on resignation date.

Table 10: Directors' and Senior Executives interests in options

	Year	Options held at 1 January	Issued during the year	Excised, expired or forfeited during the year	Options held at 31 December 2017	% vested and exercisable at 31 December 2017
Current Directors						
Roger Steinepreis (appointed 4 December 2017)	2017	-	12,500,000[(1)]	-	12,500,000	100%
Matthew Worner (appointed 4 December 2017)	2017	-	30,000,000[(1)]	-	30,000,000	100%

(1) $0.005 unlisted options expiring 31 December 2020 issued 22 December 2017 for no consideration following approval at the Company's shareholder meeting held 4 December 2017. There are no vesting or performance conditions attached to the options and they are exercisable at any time on or prior to the expiry date. The total value of options granted in the year ended 31 December 2017 was $88,995 (2016: Nil). Refer to note 14 for the fair value of options calculation inputs.

13.8 Loans from key management personnel and their related parties

Mr T Harry who was appointed as a director of the Company 31 July 2017 is the sole shareholder, sole director and sole secretary of Rocket Science Pty Ltd and is the appointor and principal beneficiary of The Trojan Capital Fund.

On 27 March 2017, the group entered into a financing arrangement with Rocket Science Pty Ltd as trustee for The Trojan Capital Fund to provide a $275,000 unsecured loan for a period up to 31 March 2018.

The loan was based on normal commercial terms and conditions, subject to an interest rate of 15% per annum and had a $5,000 establishment fee. In December 2017 Rocket Science Pty Ltd as Trustee for The Trojan Equity Fund agreed to a reduced amount of $25,000 for full and final settlement of all interest and establishment fee obligations due under the loan agreement.

The $275,000 unsecured loan amount has been recognised in the balance of borrowings at 31 December 2017. The $25,000 amount for interest and establishment fee obligations has been recognised in the balance of trade and other payables at 31 December 2017.

The $275,000 unsecured loan and $25,000 amount for full and final settlement of all interest and establishment fee obligations was paid by the Company in January 2018.

13.9 Other key management personnel transactions

Certain directors, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Some of these entities transacted with the Company or its controlled entities in the reporting period. The aggregate value of transactions and outstanding balances related to key management personnel and entities over which they have control or significant influence are listed below. Amounts for such services were due and payable under normal payment terms.

Table 11: Other key management personnel transactions

	Transaction values for the year ended 31 December		Balance outstanding as at 31 December	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Recognised as administrative and other expenses	31,865	59,388	-	2,950
Recognised as finance costs (refer section to 13.8)	25,000	-	25,000(1)	-
Recognised as borrowings	-	-	2750,000	-

(1) $25,000 included in $275,000 balance of borrowings.

Mr A Crawford who retired as a director on 28 July 2017 is a director of Box One Corporate Pty Ltd. Box One Corporate Pty Ltd received payment for the services of Mr A Crawford as Company Secretary to the Group and also receives payment for other accounting and tax services provided to the Group. The agreement for these services was based on normal commercial terms and conditions. The total transaction value included in Table 11 above includes the payments relating to Mr A Crawford's Company Secretary services which are also included in section 13.6 as key management personnel remuneration.

End of Remuneration Report – audited.

14 Non-audit services

During the 2017 year KPMG, the Company's auditor did not perform any other services in addition to their statutory duties.

15 Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration as required under section 307C of the Corporations Act is set out on page 20 of this Annual Report and forms part of the Directors' Report for the year ended 31 December 2017.

Signed in accordance with a resolution of Directors.

Peter Love

Peter Love
Chairman
Brisbane, Queensland
29 March 2018

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Talon Petroleum Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2017 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Jason Adams
Partner

Brisbane
29 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Consolidated 2017 $	Consolidated 2016 $
Revenue	2	104,681	133,730
Cost of oil and gas sold	3	(137,882)	(187,614)
Net margin on sale of oil and gas		(33,201)	(53,884)
Other income		-	95,190
Employee benefits	3	(144,277)	(80,000)
Administrative and other expenses	3	(382,874)	(473,055)
Reversal of provision no longer required	11	-	121,181
Net impairment reversal	3	-	190,245
Results from operating activities		(560,352)	(200,323)
Finance income		2,456	7,640
Finance costs		(28,021)	(1,901)
Loss before income tax		(585,917)	(194,584)
Income tax expense	4	-	-
Loss for the period		(585,917)	(194,584)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation differences, net of tax		(16,775)	7,082
Total comprehensive loss attributable to owners of the company		**(602,692)**	**(187,502)**
		Cents	**Cents**
Basic earnings per share	6	(0.21)	(0.1)
Diluted earnings per share	6	(0.21)	(0.1)

The notes on pages 25 to 52 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	Consolidated 2017 $	Consolidated 2016 $
Current assets			
Cash and cash equivalents		2,563,685	401,374
Trade and other receivables	7	7,992	11,778
Prepayments		35,488	41,971
Total current assets		**2,607,165**	**455,123**
Non-current assets			
Security deposits		64,103	69,099
Oil and gas properties	8	421,313	518,519
Total non-current assets		**485,416**	**587,618**
TOTAL ASSETS		**3,092,581**	**1,042,741**
Current liabilities			
Trade and other payables		(116,760)	(65,184)
Borrowings	10	(275,000)	-
Provisions	11	(70,513)	(50,940)
Total current liabilities		**(462,273)**	**(116,124)**
Non-current liabilities			
Provisions	11	(296,526)	(393,028)
Total non-current liabilities		**(296,526)**	**(393,028)**
TOTAL LIABILITIES		**(758,799)**	**(509,152)**
NET ASSETS		**2,333,782**	**533,589**
Equity			
Issued capital	13	36,052,675	33,838,250
Reserves	13	2,848,862	2,677,177
Retained earnings		(36,567,755)	(35,981,838)
TOTAL EQUITY		**2,333,782**	**533,589**

The notes on pages 25 to 52 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

Consolidated	Note	Share capital $	Share option reserve $	Foreign currency translation reserve $	Retained earnings / (accumulated losses) $	Total equity $
Balance at 1 January 2017		33,838,250	2,145	2,675,032	(35,981,838)	533,589
Total comprehensive income for the period						
(Loss) for the period		-	-	-	(585,917)	(585,917)
Other comprehensive income						
Foreign exchange translation differences		-	-	(16,775)	-	(16,775)
Total comprehensive income for the period		**-**	**-**	**(16,775)**	**(585,917)**	**(602,692)**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued net of transaction costs	13	2,151,068	-	-	-	2,151,068
Unclaimed small lot process funds	13	63,357	-	-	-	63,357
Options issued	14	-	188,460	-	-	188,460
Balance at 31 December 2017		**36,052,675**	**190,605**	**2,658,257**	**(36,567,755)**	**2,333,782**
Balance at 1 January 2016		33,838,250	2,145	2,667,950	(35,787,254)	721,091
Total comprehensive income for the period						
(Loss) for the period		-	-	-	(194,584)	(194,584)
Other comprehensive income						
Foreign exchange translation differences		-	-	7,082	-	7,082
Total comprehensive income for the period		**-**	**-**	**7,082**	**(194,584)**	**(187,502)**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued net of transaction costs		-	-	-	-	-
Balance at 31 December 2016		**33,838,250**	**2,145**	**2,675,032**	**(35,981,838)**	**533,589**

The notes on pages 25 to 52 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Consolidated 2017 $	Consolidated 2016 $
Cash flows from operating activities			
Cash receipts from customers		99,302	252,162
Cash paid to suppliers and employees		(562,183)	(650,381)
Interest received		2,456	7,640
Interest paid		(526)	(635)
Net cash used in operating activities	20	**(460,951)**	**(391,214)**
Cash flows from investing activities			
Proceeds from sale of oil and gas properties		-	121,115
Net cash from investing activities		**-**	**121,115**
Cash flows from financing activities			
Proceeds from the issuance of shares		2,300,000	-
Share issue costs		(11,222)	-
Proceeds from borrowings		275,000	-
Unclaimed small lot process funds		63,357	-
Net cash from financing activities		**2,627,135**	**-**
Net increase/(decrease) in cash and cash equivalents		2,166,184	(270,099)
Effect of exchange rate fluctuations on cash held		(3,873)	4,305
Cash and cash equivalents at beginning of period		401,374	667,168
Cash and cash equivalents at 31 December		**2,563,685**	**401,374**

The notes on pages 25 to 52 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

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 6872. The consolidated financial statements of the Company as at and for the year ended 31 December 2017 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 develop and produce petroleum resources in the USA.

(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 29 March 2018.

(b) 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 has incurred a loss of $585,917 (2016: $194,584) in the year ended 31 December 2017 and has accumulated losses of $36,567,755 (2016: $35,981,838) as at 31 December 2017. The Group has cash on hand of $2,563,685 (2016: $401,374) at 31 December 2017 and used $460,951 (2016: $391,214) of net cash in operations for the year ended 31 December 2017.

The Group completed a share placement in December 2017 raising $2,300,000 in cash (prior to transaction costs) from the issue of ordinary shares. As set out in the Explanatory Memorandum for the Extraordinary General Meeting on 4 December 2017 to approve the share placement, the Group intends to use the funds raised towards repayment of the loan to a director related entity (refer note 10), for technical studies on and maintaining the Group’s existing assets, to fund any legal costs arising on the lease dispute relating to the MR Olmos project (refer note 17), to seek new investment opportunities and towards corporate and administration costs and working capital.

Management has prepared cash flow projections that support the ability of the Group to continue as a going concern. These cashflow projections assume the Group maintains its expenditure in line with available funding to enable it to continue as a going concern and pay its debts as and when they fall due.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations

Certain new accounting standards and interpretations become effective for annual reporting periods beginning after 1 January 2018. The Group's assessment of the impact of these new standards and interpretations is set out below.

New and revised Accounting Standards not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory have not been early adopted by the Group for the annual reporting period ended 31 December 2017.

AASB 9 *Financial Instruments* addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2018 but is available for early adoption. The Group has not adopted this standard early and its impact is not expected to be material.

AASB 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 111 *Construction Contracts* and AASB 118 *Revenue.* The standard is not applicable until 1 January 2018 but is available for early adoption. The Group has not adopted this standard early and its impact is not expected to be material.

AASB 16 *Leases* establishes a new framework for the recognition of leases on balance sheet. The standard is not applicable until 1 January 2019 but is available for early adoption. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(d) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis.

The preparation of consolidated financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Notes 1(b) going concern, 1(k) oil and gas properties and 1(o) provisions.

The accounting policies have been applied consistently by all entities in the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Measurement of fair values

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:

(i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
(ii) 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).
(iii) 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.

(f) 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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Basis of consolidation (continued)

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:

(i) its assets, including its share of any assets held jointly;
(ii) its liabilities, including its share of any liabilities incurred jointly;
(iii) its revenue from the sale of its share of the output arising from the joint operation;
(iv) its share of the revenue from the sale of the output by the joint operation; and
(v) 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.

(g) Foreign currency

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Foreign currency (continued)

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.

(h) Cash and cash equivalents

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

(i) 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. Trade receivables are generally due for settlement within 60 days from the date of sale. Other receivables are generally settled within 30 days.

(j) Property, plant and equipment

Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of acquired assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs

Subsequent costs are capitalised only if it is probable that future economic benefits will flow to the Group.

Depreciation

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leasehold improvements are depreciated over the shorter of the useful life and the lease term.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Property, plant and equipment (continued)

The residual value, the useful life and the depreciation method applied to an asset are reassessed at each balance sheet date.

Gains and losses on disposal

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss as other income or other expense.

(k) Oil and gas properties

The Group's oil and gas properties include capitalised costs of past exploration and evaluation, past development, and the ongoing costs of continuing to develop reserves for production. These costs include construction, installation or completion of infrastructure facilities such as pipelines and platforms, transferred exploration and evaluation costs, costs of direct labour, costs of dismantling and removing the items and restoration of the site on which they are located, the cost of development wells and any other costs directly attributable to bringing the asset to a working condition for its intended use. Site restoration costs are capitalised within the cost of the associated asset and the provision is included in liabilities on the balance sheet.

Oil and gas properties are subject to a depletion charge from the time production commences on a unit-of-production basis using estimated reserves that are forecast to be produced over the economic life of the property. The carrying value of the properties is evaluated in comparison to future estimated recoverable reserves. When a determination is made that the capitalised costs exceed the expected recoupment, the property is impaired or written off.

The Group has an independent third party prepare estimates of reserves using data provided that includes but is not limited to well logs, geologic maps, seismic data, test data and production data, historical price and cost information, and property ownership interests. The independent reserves estimate is prepared according to generally accepted petroleum engineering and evaluation principles set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves information promulgated by the SPE (SPE Standards). The methods used to classify, categorize, and estimate reserves are in accordance with the definitions and guidelines of the 2007 Petroleum Resources Management System (PRMS).

(l) Exploration and evaluation expenditure

Exploration and evaluation costs, including the costs of acquiring leases, are intangible assets capitalised as exploration and evaluation assets on an area of interest basis.

Exploration and evaluation assets are only recognised if the rights to tenure of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
(ii) activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Exploration and evaluation expenditure (continued)

Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the statement of comprehensive income.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount or prior to reclassification to oil and gas properties. For the purpose of impairment testing, exploration assets are grouped together into a group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit” or “CGU”).
The CGU shall not be larger than the area of interest.

(m) 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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) 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.

(o) Provisions

Restoration

The Group records the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation arises. The nature of restoration activities includes the removal of facilities, abandonment of wells and restoration of affected areas.

Typically, the obligation arises when the asset is installed at the production location. When the liability is initially recorded, the estimated cost is capitalised by increasing the carrying amount of the related oil and gas properties. Over time, the liability is increased for the change in the present value based on a risk free pre-tax discount rate. The unwinding of the discount is recorded as an accretion charge within finance expense. The carrying amount capitalised in oil and gas properties is depreciated over the useful life of the related asset.

Costs incurred that relate to an existing condition caused by past operations, and do not have future economic benefit, are expensed.

(p) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits (continued)

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.

(q) Share capital – transaction costs

Transaction costs of an equity transaction relating to the raising of new share capital are accounted for as a deduction from equity, net of any recoverable income tax benefit applicable.

(r) Revenue and other income

Sale of oil and gas
Revenue from the sale of oil and gas is recognised when the significant risks and rewards of ownership have transferred to the buyer and can be measured reliably. Delivery of gas is by pipeline and sales contracts define the point of transfer in ownership.

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).

(s) Lease payments

Operating lease payments

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense and spread over the lease term.

(t) Income tax

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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Income tax (continued)

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.

(u) Segment reporting

The Group determines operating segments based on the information that internally is provided to the board, who acts as the Group's chief operating decision maker.

The Group operates within one business segment (the petroleum exploration and production industry) and one geographical segment (the United States of America).

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Geographical information

The geographical locations of the Group's non-current assets are USA $485,416 (2016: $587,618) and Australia $nil (2016: $nil).

(v) 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.

2. REVENUE

	Consolidated 2017 $	Consolidated 2016 $
Revenue		
Oil sales	97,479	125,422
Gas sales	7,202	8,308
	104,681	133,730

Operating segment disclosures

All of the Group's oil and gas revenues are from two customers located in the USA. This amount represents more than 97% of the Group's total income for the 2017 financial year (2016: 57%).

3. EXPENSES

	Consolidated 2017 $	Consolidated 2016 $
Cost of oil and gas sold		
Production taxes	4,858	5,955
Lease operating expenses, processing and transportation	71,906	97,903
Depletion	61,118	83,756
	137,882	187,614

	Consolidated 2017 $	Consolidated 2016 $
Employee benefit expenses		
Wages, salaries and director fees	75,379	73,060
Contributions to defined contribution superannuation plans	6,078	6,940
Share based payments	62,820	-
	144,277	80,000

3. EXPENSES (continued)

	Consolidated 2017 $	Consolidated 2016 $
Administrative and other expenses		
General corporate and compliance	324,324	415,670
Consultants	58,434	57,219
Expensed work over activity	116	166
	382,874	473,055

Net impairment reversals

At 31 December 2017 the Company evaluated the carrying values of oil and gas properties in comparison with their estimated recoverable amounts based on proved and probable (2P) reserves estimates prepared by independent third party reserve engineers and determined no impairment indicators were present. As such, there have been no impairments or reversal of impairments during the 2017 year. During the 2016 year impairment reversals totalling $230,644 were recognised. In the 2016 year the Group wrote off capitalised exploration and evaluation properties which were not pursued due to lack of economic viability. Refer to Note 9 for the details. The assets were impaired accordingly.

	Consolidated 2017 $	Consolidated 2016 $
Oil and gas properties, net of depletion	-	(230,644)
Exploration and evaluation assets	-	40,399
	-	(190,245)

4. INCOME TAX EXPENSE

Numerical reconciliation between tax expense and pre-tax net profit / (loss)

	Consolidated 2017 $	Consolidated 2016 $
Profit / (loss) before tax	(585,917)	(194,584)
Income tax expense/(benefit) using the domestic corporation tax rate of 27.5% (2016: 30%)	(161,127)	(58,375)
Increase/(decrease) in income tax expense due to:		
Change in unrecognised deferred tax assets	180,487	53,225
Non-deductible expenditure and US bonus depletion deduction	(4,202)	64
Effect of tax rates in foreign jurisdictions	(15,158)	5,086
Income tax expense/(benefit)	-	-

Income tax expense consists of current tax expense of $nil (2016: $nil) and deferred tax expense of $nil (2016: $nil).

Income tax expense/benefit recognised directly in equity for the Group is $nil (2016: $nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. AUDITOR'S REMUNERATION

	Consolidated 2017 $	Consolidated 2016 $
Audit services:		
Auditor of the Company, KPMG Australia – audit and review of financial reports	62,389	56,850
Other services:		
KPMG Australia – taxation and other services	-	4,613
	62,389	61,463

6. EARNINGS PER SHARE

Basic
Basic earnings per share is determined by dividing the profit 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 have been included in the calculation of diluted earnings per share.

	Consolidated 2017 Cents	Consolidated 2016 Cents
Basic earnings per share	(0.21)	(0.1)
Diluted earnings per share	(0.21)	(0.1)

	$	$
Loss used in the calculation of basic and diluted earnings per share	(585,917)	(194,584)

2017 Weighted average number of ordinary shares (basic and diluted)	**Number**
Shares issued and outstanding at 31 December 2016	253,456,191
Issue of ordinary shares 22 December 2017	766,666,667
Weighted average number of ordinary shares used as the denominator in calculating 2017 basic and diluted earnings per share	274,460,757

2016 Weighted average number of ordinary shares (basic and diluted)	**Number**
Shares issued and outstanding at 31 December 2016	253,456,191
Weighted average number of ordinary shares used as the denominator in calculating 2016 basic and diluted earnings per share	253,456,191

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. TRADE AND OTHER RECEIVABLES

	Consolidated 2017 $	Consolidated 2016 $
Current		
Trade receivables	7,992	11,778
	7,992	11,778

The Group's exposure to credit risk, foreign exchange risk and interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 15.

8. OIL AND GAS PROPERTIES

	Consolidated 2017 $	Consolidated 2016 $
Oil and gas properties		
Cost		
Balance at beginning of period	2,281,443	2,024,255
Impairment expense	-	-
Impairment reversal	-	230,644
Foreign exchange translation	(164,966)	26,544
Balance at 31 December	2,116,477	2,281,443
Accumulated depletion		
Balance at beginning of period	(1,762,924)	(1,661,128)
Depletion expense	(61,118)	(83,756)
Foreign exchange translation	128,878	(18,040)
Balance at 31 December	(1,695,164)	(1,762,924)
Carrying amounts		
At beginning of period	518,519	363,126
At 31 December	421,313	518,519

At 31 December 2017, the Company evaluated the carrying values of oil and gas properties in comparison with their estimated recoverable amounts based on proved and probable (2P) reserves estimates prepared by independent third party reserve engineers and determined no impairment indicators were present. As such, there have been no impairments or reversal of impairments during the 2017 year. During the 2016 year impairment reversals totalling $230,644 were recognised. The reserve valuation of oil and gas assets at 31 December 2017 of $421,313 (2016: $518,519) is based on value in use calculated using a discounted cash flow model with a 10% pre-tax discount rate (2016: 10%).

Key assumptions with estimation uncertainty in the determination of recoverable amount include oil prices, discount rate, 2P reserves, operating costs and capital expenditure.

9. EXPLORATION AND EVALUATION ASSETS

	Consolidated 2017 $	Consolidated 2016 $
Balance at beginning of period	-	41,133
Impairment expense	-	(40,399)
Foreign exchange translation	-	(734)
Balance at 31 December	-	-

10. BORROWINGS

	Consolidated 2017 $	Consolidated 2016 $
Current		
Unsecured loan	275,000	-
Total borrowings	275,000	-

On 27 March 2017, the group entered into a financing arrangement with Rocket Science Pty Ltd as trustee for The Trojan Capital Fund to provide a $275,000 unsecured loan for a period up to 31 March 2018. Mr T Harry, who was appointed as a director of the Company on 31 July 2017 is the sole shareholder, sole director and secretary of Rocket Science Pty Ltd and is the appointor and principal beneficiary of The Trojan Capital Fund.

The loan was based on normal commercial terms and conditions, subject to an interest rate of 15% per annum and had a $5,000 establishment fee. In December 2017 Rocket Science Pty Ltd as Trustee for The Trojan Equity Fund agreed to a reduced amount of $25,000 for full and final settlement of all interest and establishment fee obligations due under the loan agreement. The $25,000 amount for interest and establishment fee obligations has been recognised in the balance of trade and other payables at 31 December 2017.

The $275,000 unsecured loan and $25,000 amount for full and final settlement of all interest and establishment fee obligations was paid by the Company in January 2018.

The Group's exposure to credit risk, foreign exchange risk and interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. PROVISIONS

	Consolidated 2017 $	Consolidated 2016 $
Current		
Restoration provision		
Balance at beginning of period	50,940	-
Plugging activities	(44,264)	-
Provisions made/(reversed) during the period	(6,435)	-
Transfer from non-current provision	73,259	50,940
Foreign exchange translation	(2,987)	-
Balance at 31 December	70,513	50,940

	Consolidated 2017 $	Consolidated 2016 $
Non-current		
Restoration provision		
Balance at beginning of period	393,028	558,445
Provisions made/(reversed) during the period	-	(121,181)
Transfer to current provision	(73,259)	(50,940)
Discount on unwinding of provision	2,495	1,302
Foreign exchange translation	(25,738)	5,402
Balance at 31 December	296,526	393,028

At 31 December 2017 a current provision of $70,513 (2016: $50,940) has been recognised in respect of the Group's Hoskins #2 well, with a non-current provision of $296,526 (2016: $393,028) recognised for restoration of existing wells on the Group's remaining acreage. The provision has been estimated based on existing technology and procedures and current prices. During the 2016 period year $121,181 was recognised through the income statement in connection with the reversal of a provision no longer required on a well which the Group non-consented to in the 2015 income year.

12. TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities
The Group has not recognised any deferred tax assets or deferred tax liabilities at 31 December 2017 or 31 December 2016.

Unrecognised deferred tax assets
The Group has tax deductible temporary differences and unused tax losses of $15,283,420 (2016: $13,183,979) for which deferred tax assets have not been recognised. The deductible temporary differences and tax losses do not expire under current Australian tax legislation. USA tax losses expire after a period of 20 years. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. EQUITY AND RESERVES

A. Share capital

Movements in shares on issue during the comparative periods were as follows:

	Consolidated 2017	Consolidated 2016
	Ordinary shares (number)	**Ordinary shares (number)**
On issue at beginning of period	253,456,191	253,456,191
Issue of ordinary shares 22 December 2017	766,666,667	-
On issue at end of period – fully paid	1,020,122,858	253,456,191

Movements in ordinary share capital

Date	Details	Notes	Number of shares	Issue price	$
31 Dec 2015	**Balance**		**253,456,191**		**33,838,250**
31 Dec 2016	**Balance**		**253,456,191**		**33,838,250**
	Unclaimed small lot proceeds	(i)			63,357
	Placement to professional and sophisticated investors	(ii)	766,666,667	$0.003	2,300,000
	Less: Transaction costs arising on share issues				(148,932)
31 Dec 2017	**Balance**		**1,020,122,858**		**36,052,675**

(i) Unclaimed small lot proceeds

On 3 May 2017 the Company received $63,357 of unclaimed money in connection with the small lot process which was completed in May 2015. The unclaimed money was returned to the Company in accordance with its constitution.

(ii) Issuance of ordinary shares

On 22 December 2017 the Company issued 766,666,667 ordinary shares at $0.003 per share through a placement to professional and sophisticated investors.

Ordinary shares

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.

B. Reserves

	Consolidated 2017 $	Consolidated 2016 $
Share option reserve	190,605	2,145
Foreign currency translation reserve	2,658,257	2,675,032
Total reserves	2,848,862	2,677,177

13. EQUITY AND RESERVES (continued)

C. Share option reserve

Movements in the number of share options during the period shown by class were as follows:

7 March 2019 $0.0675 Options

	Consolidated 2017	Consolidated 2016
	Options (number)	Options (number)
Outstanding at 1 January	183,336	183,336
Outstanding at end of period	183,336	183,336
Exercisable at 31 December	183,336	183,336

At 31 December 2017 there were 183,336 options outstanding which are exercisable at $0.0675 each and expire 7 March 2019. These options are held by a previous employee of the Group and a previous consultant to the Group.

31 December 2020 $0.005 Options

	Consolidated 2017	Consolidated 2016
	Options (number)	Options (number)
Outstanding at 1 January	-	-
Issued 22 December 2017	90,000,000	-
Outstanding at end of period	90,000,000	-
Exercisable at 31 December	90,000,000	-

At 31 December 2017 there were 90,000,000 options outstanding which are exercisable at $0.005 each and expire 31 December 2020.

The Company's option reserve at 31 December 2017 reflects the aggregate grant date fair value of outstanding options expensed $190,605 (2016: $2,145).

D. Foreign currency translation reserve

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 (Note 18) for which the functional currency is the US dollar. Translation into the presentation currency of Australian dollars creates a translation difference that is adjusted to the foreign currency reserve.

E. Dividends

No dividends have been declared, provided for or paid in 2017 (2016: nil). In respect to the payment of dividends by the Company in subsequent reporting periods (if any), no franking credits are currently available.

14. SHARE BASED PAYMENTS

On 22 December 2017 90,000,000 options were issued comprising:
- 30,000,000 to a director, Mr Matthew Worner, as an incentive payment to seek new investment opportunites; and
- 12,500,000 to a director, Mr Roger Steinepreis and 42,500,000 to Chieftain Securities Pty Ltd, for services provided in relation to the Company's equity raising in December 2017.

The options were issued for no consideration, have no vesting conditions, have an exercise price of $0.005 and expire 31 December 2020. No other options were issued during the year ended 31 December 2017 or the year ended 31 December 2016.

Fair value of options granted
The assessed fair value at grant date of 90,000,000 options issued during the year ended 31 December 2017 was $0.002094 per option. The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 31 December 2017 included:

(a) options are granted for no consideration and have no vesting conditions.
(b) exercise price: $0.005
(c) issue date: 22 December 2017
(d) expiry date: 31 December 2020
(e) share price at grant date: $0.003 (22 December 2017 fully paid ordinary shares placement price)
(f) expected price volatility of the company's shares: 134%
(g) expected dividend yield: 0%
(h) risk-free interest rate: 2.009%

The expected price volatility is based on the historic volatility.

Amounts arising from share-based payment transactions
The total arising from share-based payment transactions recgonised during the period were as follows:

	Number of options 2017	Consolidated 2017 $	Number of options 2016	Consolidated 2016 $
Recognised as employee benefits expense	30,000,000	62,820	-	-
Recognised as issued capital – transaction costs arising on share issues	60,000,000	125,640	-	-
	90,000,000	188,460	-	-

15. FINANCIAL INSTRUMENTS

A. Financial Risk Management

The Group's operating activities provide exposure to the following risks:

- market risk
- credit risk
- liquidity risk

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and has adopted risk management policies to protect the assets and undertakings of the Group.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate controls, and to monitor risks and adherence to controls. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Financial risk is managed by the whole of the Board.

B. Market Risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates, and interest rates affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Commodity price risk

The Group is exposed to commodity price risk as oil and gas prices fluctuate depending on market conditions. The Group does not presently enter into hedging arrangements to hedge this risk, which historically has been considered appropriate by the Board taking into account the Group's size, current stage of development, financial position and the Board's approach to risk management.

15. FINANCIAL INSTRUMENTS (continued)

B. Market Risk (continued)

Currency risk

The Group is exposed to currency risk on sales, purchases, assets and payables that are denominated in a currency other than the respective functional currencies of group entities. The Group's operations are located in the USA and its reported results and financial position can be significantly affected by changes in the USD/AUD exchange rate. The Group seeks to minimise its exposure to currency risk by monitoring exchange rates and entering into foreign currency transactions that maximise cash available for the USA operations. The Group does not presently enter into hedging arrangements to hedge its currency risk. All foreign currency transactions are entered into at spot rates. The Board considers this policy appropriate, taking into account the Group's size, current stage of development, financial position and the Board's approach to risk management.

The Group's exposure to foreign currency risk at balance date was as follows, based on Australian dollar equivalent amounts.

In AUD	**2017**		**2016**	
	Australian $	**US $**	**Australian $**	**US $**
Cash and cash equivalents	2,531,959	31,726	286,262	115,112
Trade and other receivables (current)	-	7,992	-	11,778
Prepayments	10,905	24,583	14,439	27,532
Security deposits (non-current)	-	64,103	-	69,099
Trade and other payables	(101,611)	(15,149)	(44,288)	(20,896)
Borrowings	(275,000)	-	-	-
Net exposure	2,166,253	113,255	256,413	202,625

The following significant exchange rates applied during the period.

AUD	**Average rate**		**Reporting date spot rate**	
	2017	**2016**	**2017**	**2016**
USD	0.77	0.74	0.78	0.72

Sensitivity analysis

The functional currency of the main operating entities in the Group is US dollars. For the period 1 January 2017 to 31 December 2017 the majority of the Groups' operations were located in the USA and the majority of transactions and balances were denominated in US dollars. The Group's presentation currency is Australian dollars. Based on the financial instruments held at 31 December 2017, a 10% movement in the US dollar against the Australian dollar would have resulted in a $6,409 decrease / $12,584 increase in comprehensive net income (2016: $18,420 decrease / $22,513 increase).

In 2017 the US dollar weakened relative to the Australian dollar resulting in a $16,775 foreign currency translation loss (2016: $7,082 gain) on the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. FINANCIAL INSTRUMENTS (continued)

B. Market Risk (continued)

Interest rate risk

Talon's interest rate risk arises from cash and cash equivalents and short term financial assets at variable interest rates. Based on the 31 December 2017 balance of variable rate cash deposits, if prevailing interest rates had increased or decreased by 25 basis points during the period, the effect would have been an increase / decrease in interest income of $6,409 (2016: $716), assuming that all other variables remain constant. At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was as follows. The Company has no borrowings which would expose it to interest rate risk at year end.

	Rates	Consolidated 2017	Consolidated 2016
Cash and cash equivalents	Variable	2,563,685	401,374
		2,563,685	401,374

C. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk is minimal at present as the majority of its financial assets are held in cash with highly rated banks. The carrying amount of the Group's financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	Consolidated Carrying amount 2017 $	Consolidated Carrying amount 2016 $
Cash and cash equivalents		2,563,685	401,374
Short term financial assets		-	-
Trade and other receivables (current)	7	7,992	11,778
Security deposits (non-current)		64,103	69,099
		2,635,780	482,251

The maximum exposure to credit risk for cash and cash equivalents and short term financial assets at the reporting date by counterparty was as set out below. The directors monitor credit quality of the financial institutions utilised by the Group. At 31 December 2017 and 31 December 2016 accrued revenue from Talon's primary customer, a subsidiary of a Global Fortune 500 company, accounts for the majority of the amounts due from trade and other receivables. The security deposit is an amount held with the Texas Railroad Commission. The Directors are comfortable with the credit quality of the trade and other receivables balances.

Credit risk for cash and cash equivalents	Consolidated Carrying amount 2017 $	Consolidated Carrying amount 2016 $
NAB	232,514	355,284
Bank West	2,299,970	-
Wells Fargo	31,201	46,090

At reporting date the Group had no trade receivables past due.

15. FINANCIAL INSTRUMENTS (continued)

C. 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, to the extent possible, that it will always have sufficient cash or liquid assets 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 its cash holdings on a regular basis in relation to actual cash flows, financial obligations and planned activities in order to manage liquidity risk.

The Group's financial liabilities consist of trade payables of $116,760 (2016: $65,184) and borrowings $275,000 (2016: $nil). The contractual cash flows for trade payables and borrowings equal the carrying amounts and are due in six months or less.

D. Capital management

The Board's policy is to maintain a suitable capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Given the Group's current stage of development and financial position the Board is focused on minimising overhead expenditure.

There were no changes in the Group's approach to capital management during the period. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

E. Fair values

The fair values of the Group's financial assets and financial liabilities at 31 December 2017 and 31 December 2016 are assumed to approximate their carrying amounts due to the short term nature of the instruments.

16. CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2017 or 31 December 2016.

17. CONTINGENCIES

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 2017 (2016: $nil).

Guarantees

The Group has provided guarantees and deposits of $64,103 (2016: $69,099) in relation to exploration activities in Texas, USA.

Leasehold Position

As first announced on 4 July 2017, Talon received a letter from a Lessor on part of its McMullen County, Texas, Mosman Rockingham (MR) Olmos acreage disputing Talon's leasehold position on specific leases. There have been no further developments on this matter since the market update in the September 2017 Quarterly Report. No further correspondence has been received on this matter.

As disclosed in the September 2017 Quarterly Report, Talon received a request for a partial termination of lease on the Quintanilla lease of the MR Olmos project. Talon has advised the Lessor that Talon disputes the quantum of acreage to be terminated under the terms of the lease. No further correspondence has been received on this matter.

The disputed leases are carried at nil value on Talon's balance sheet as they were fully impaired in prior financial years. Therefore, if Talon were forced to return the leases, there would be no effect on the carrying value of Talon's oil and gas properties.

Litigation

The Group has no outstanding litigation as at 31 December 2017 (2016: $Nil).

18. CONSOLIDATED ENTITIES

	Country of Incorporation	Ownership interest	Ownership interest
Parent entity		**2017 %**	**2016 %**
Talon Petroleum Limited			
Subsidiaries			
Texon I Pty Ltd	Australia	100	100
Rubox Pty Ltd	Australia	100	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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. INTERESTS IN JOINT ARRANGEMENTS

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.

At 31 December 2017 the Group holds working interests in joint operating agreements relating to the following projects, whose principal activities are oil and gas exploration and production.

Operating Agreement	Location	Purpose	Talon Relationship	Working Interest
Texoz - Wandoo (Wheeler #1, Hoskins #1, Hoskins #2)	McMullen County, TX	Operation & Production	Operator	95%
Texoz – O'Brien (Brice Bonner #1)	Navarro County, TX	Operation & Production	Non-operator	1%
Texoz, et al (Olmos – Quintanilla OL 1H)	McMullen County, TX	Operation & Production	Operator	10%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. CASH FLOW INFORMATION

A. Reconciliation of profit after income tax to net cash outflow from operating activities

	Consolidated 2017 $	Consolidated 2016 $
Cash flows from operating activities		
Profit / (loss) for the period	(585,917)	(194,584)
Adjustments for non-cash items:		
Net impairments	-	(190,245)
Reversal of provision no longer required	-	(121,181)
Depletion – oil and gas properties	61,118	83,756
Unwinding of restoration provision discount	2,495	942
Share based payments expense	62,820	-
Net exchange differences	(7,811)	-
Operating profit/(loss) before changes in working capital and provisions	**(467,295)**	**(421,312)**
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	3,342	18,663
(Increase)/decrease in prepayments	5,355	9,020
(Decrease)/increase in payables	40,309	2,895
(Decrease)/increase in employee benefits	-	(480)
(Decrease)/increase in provisions	(42,662)	-
Net cash used in operating activities	**(460,951)**	**(391,214)**

B. Changes in liabilities arising from financing activities

	Borrowings $	Total $
Liabilities arising from financing activities at 1 January 2017	-	-
New borrowings	(275,000)	(275,000)
Liabilities arising from financing activities at 31 December 2017	**(275,000)**	**(275,000)**

21. RELATED PARTIES

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors
Mr P Love
Mr T Harry
Mr R Steinepreis
Mr M Worner
Mr P Evans
Mr A Crawford

The movement during the reporting period in the number of ordinary shares in Talon Petroleum Limited held directly, indirectly or beneficially, by each key management personnel, including their related parties is provided in the remuneration report, pages 11 – 18.

Details of a loan from a director related entity are outlined in note 10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. RELATED PARTIES (continued)

Key management personnel compensation

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

	Consolidated 2017 $	Consolidated 2016 $
Short term benefits	95,743	108,460
Post-employment benefits	6,078	6,940
Share-based payment	88,995	-
	190,816	115,400

22. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 31 December 2017 the parent entity of the Group was Talon Petroleum Limited.

Result of the parent entity	2017 $	2016 $
Loss for the period	(602,692)	(187,502)
Other comprehensive income for the period	-	-
	(602,629)	(187,502)
Financial position of the parent entity at period end		
Current assets	2,543,389	369,723
Total assets	2,710,393	577,877
Current liabilities	376,611	44,288
Total liabilities	376,611	44,288
Total equity of the parent entity comprising of:		
Share capital	36,052,675	33,838,250
Reserves	190,605	2,145
Accumulated losses	(33,909,498)	(33,306,806)
Total Equity	2,333,782	533,589

The parent entity’s net assets have been impaired to the estimated recoverable amount of assets within the subsidiaries.

23. SUBSEQUENT EVENTS

In January 2018 the Company repaid the $275,000 unsecured loan outstanding at 31 December 2017. The Company also paid an amount of $25,000 as consideration for full and final settlement of all interest and establishment fee obligations due on this $275,000 unsecured loan facility.

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

.

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 21 to 52 and the Remuneration report in section 13 of the Directors' Report set out on pages 11 to 18, 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 2017 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 1(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 2017.

Signed in accordance with a resolution of the Directors.

Peter Love

Peter Love
Chairman
Brisbane, Queensland
29 March 2018

Independent Auditor's Report

To the shareholders 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).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2017;
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Carrying values of oil and gas properties;
- Provision for restoration; and
- Going concern basis of accounting.

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.

Carrying values of Oil and Gas Properties ($421,313)	
Refer to Note 8 and Note 17 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
Australian Accounting Standards require the Group to assess whether there are indicators the carrying values of its oil and gas properties may be impaired, or that a reversal of a previously recognised impairment may be required. The carrying values of the Group's oil and gas properties is a key audit matter as significant judgment is required by us in evaluating the Group's estimation of their recoverable amount and the Group's assessment of the potential impact of the dispute with lessors. This adds complexity to our evidence gathering process. In particular, the Group applies significant judgment in determining forward-looking assumptions such as commodity prices, future production volumes and capital and operating costs used in the value-in-use model. The recoverable amount is sensitive to changes in these inputs. The Group uses an external third party reserve engineer in their determination of the value-in-use including the estimation of proved and probable (2P) reserves. We use senior team members including our valuation specialists in assessing this key audit matter.	Our audit procedures included: • Assessing the competence, capabilities and objectivity of the external third party reserve engineer engaged by the Group; • Evaluating the valuation methodology used by the external third party reserve engineer for consistency with the requirements of accounting standards and common industry practice; • Performing sensitivity analysis to assess the key assumptions with the greatest impact on the value-in-use to focus our effort thereon; • Critically evaluating significant assumptions in the value-in-use model by: - Comparing forecast commodity prices to available industry data, analyst views and broker consensus; - Comparing production volumes to the estimate of 2P reserves determined by the external third party reserve engineer; - Assessing forecast capital and operating costs against historical experience; and - Independently developing a discount rate from our research of market observable data and knowledge of the industry and comparing it to the rate used by the Group. • Reading lease agreements, correspondence between the Group and the lessors and other information obtained by the directors to critically assess potential impacts of the dispute with lessors on the carrying values of the oil and gas properties.

Provision for restoration ($367,039)	
Refer to Note 11 to the Financial Report.	
The key audit matter	**How the matter was addressed in our audit**
The provision for the Group's restoration obligations is a key audit matter due to: • The significance of the balance (being 48% of total liabilities); and • The inherent complexity in estimating future restoration costs, particularly those that are	Our audit procedures included: • Assessing internal documentation used by the Group to determine its future required restoration activities, their timing and associated cost estimations. We compared these to the nature, quantum and timing of

forecast to be incurred several years in the future. We focused on assessing: • The Group's approach to determining their obligations under current regulatory requirements and estimates of future costs; • Historical experience, and whether this is a reasonable predictor when evaluating forecast costs; and • The expected timing of the expenditure.	costs contained in calculation of the provision balance; • Testing the accuracy of historical estimates for restoration provisions by comparing to actual expenditure. We used this knowledge to challenge the Group's current cost estimations; • Performing sensitivity analysis on the impact of changes to key assumptions used in the provision estimation, to focus our effort thereon; • Evaluating the completeness of the restoration provision by comparing the Group's internal register of fields to those included in the provision; • Corroborating the expected timing of the restoration activity to the useful life of the related oil and gas properties.

Going concern basis of accounting

Refer to Note 1(b) to the Financial Report

The key audit matter	How the matter was addressed in our audit
The Group's use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgement required by us in evaluating the Group's assessment of going concern and the events or conditions that may cast significant doubt on their ability to continue as a going concern. These are outlined in Note 1(b). The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. Their assessment of going concern was based on cash flow projections. The preparation of these projections incorporated a number of assumptions and significant judgements and the Directors have concluded that the range of possible outcomes considered in arriving at this judgement does not give rise to a material uncertainty casting significant doubt on the Group's ability to continue as a going concern. We critically assessed the levels of uncertainty, as it related to the Group's ability to continue as a going concern, within these assumptions and judgements, focusing on: • The Group's planned levels of expenditures, and the ability of the Group to manage cash outflows within available funding, particularly	Our procedures included: • We analysed the cash flow projections by: - Evaluating the underlying data used to generate the projections, their consistency with the Group's intentions, and their comparability to past practices; - Analysing the impact of reasonably possible changes in projected cash flows and their timing, to the projected periodic cash positions and assessing the potential impact on the ability of the Group to continue as a going concern. The specific areas we focused on were informed from our test results of the accuracy of previous Group cash flow projections and sensitivity analysis on key cash flow projection assumptions; - Assessing the planned levels of expenditures for consistency of relationships and trends to the Group's historical results, particularly in light of the recent loss making operations, results since year end, and our understanding of the business, industry and economic conditions of the Group; • We read Directors' minutes and inquired with the Directors to understand and assess

in light of recent loss making operations; and • The Group's plans to pursue investment opportunities following the completion of the equity raising in December 2017. This included understanding their status, projected timing and impacts for available funding. In assessing this key audit matter, we involved senior audit team members who understand the Group's business, industry and the economic environment it operates in.	the status, projected timing and impacts of the Group's plans to pursue investment opportunities following the completion of the equity raising in December 2017; • We evaluated the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans, and accounting standard requirements.

Other Information

Other Information is financial and non-financial information in Talon Petroleum Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company and Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Talon Petroleum Limited for the year ended 31 December 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' 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 responsibilities

We have audited the Remuneration Report included in Section 13 of the Directors' Report for the year ended 31 December 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Jason Adams
Partner

Brisbane
29 March 2018

ADDITIONAL INFORMATION

Additional information provided pursuant to ASX listing rule 4.10 and not shown elsewhere in this Annual Report:

(a) Distribution of security holders

A distribution schedule of the number of holders, by size of holding, in each class of equity securities as at 20 March 2018:

Category	Number of fully paid ordinary shares	Number of holders of fully paid ordinary shares	Number of unlisted options	Number of holders of unlisted options
1-1,000	12,490	70		
1,001-5,000	91,273	31		
5,001-10,000	172,449	23		
10,001-100,000	9,645,459	196	16,668	1
100,001-and over	1,010,201,187	188	90,166,668	16
Total	**1,020,122,858**	**508**	**90,183,336**	**17**

The number of holders holding less than a marketable parcel of 100,000 fully paid ordinary shares as at 20 March 2018 was 311 holders.

(b) Twenty largest shareholders

The names of the 20 largest holders of listed fully paid ordinary shares, the number of listed fully paid ordinary shares each holds and the percentage of capital each holds as at 20 March 2018:

Name	Number	%
1. ROCKET SCIENCE PTY LTD <THE TROJAN CAPITAL FUND A/C>	156,433,743	15.33
2. BT PORTFOLIO SERVICES LTD <WARRELL HOLDINGS S/F A/C>	70,000,000	6.86
3. RANCHLAND HOLDINGS PTY LTD <RC STEINEPREIS FAMILY A/C>	66,666,667	6.54
4. VIMINALE PTY LTD <DA PAGANIN FAMILY NO 2 A/C>	66,666,667	6.54
5. KOBIA HOLDINGS PTY LTD	51,000,000	5.00
6. BLU BONE PTY LTD	50,000,000	4.90
7. PRECISION OPPORTUNITIES FUND LTD <INVESTMENT A/C>	50,000,000	4.90
8. KINGSLANE PTY LTD <CRANSTON SUPER PENSION A/C>	33,333,333	3.27
9. M E J C LTD <MEJ CLARKE FAMILY A/C>	31,000,000	3.04
10. TKPJ PTY LTD	24,333,335	2.39
11. DAVEY HOLDINGS (AUS) PTY LTD <BURNAFORD A/C>	16,666,667	1.63
12. NJJO NOMINEES PTY LTD <THE NJ ROWLEY SUPER A/C>	16,666,667	1.63
13. ARALAD MANAGEMENT PTY LTD <TRK SUPERANNUATION FUND A/C>	16,666,666	1.63
14. DMG (WA) PTY LTD <ALLEN PROPERTY A/C>	16,666,666	1.63
15. MR BRETT MITCHELL + MRS MICHELLE MITCHELL <MITCHELL SPRING FAMILY A/C>	16,666,666	1.63
16. LOVE SUPER SERVICES PTY LTD <J & A LOVE S/F A/C>	13,000,000	1.27
17. BANJO SUPERANNUATION FUND PTY LTD <P D EVANS PSF A/C>	11,583,189	1.14
18. HELMET NOMINEES PTY LTD <TIM WEIR FAMILY FUND A/C>	10,000,000	0.98
19. MR TIMOTHY LEONARD WEIR + MS VANYA MARIAN KELLEHER <THE TIM	10,000,000	0.98
WEIR SUPER FUND A/C>	3,002,000	1.18
20. MRS CHARISSA JILLIAN MANN	9,289,210	0.91
TOTAL	**736,639,476**	**72.21**

ADDITIONAL INFORMATION (continued)

(c) Substantial shareholders

The name of the substantial holder in the Company and the number of equity securities to which the substantial holder and the substantial holder's associates have a relevant interest, as disclosed in the substantial holding notices given to the Company as at 20 March 2018 and directors interest notices.

Name	Number	%
ROCKET SCIENCE PTY LTD ATF THE TROJAN CAPITAL FUND	156,433,743	15.33
RANCHLAND HOLDINGS PTY LTD ATF RC STEINEPREIS FAMILY TRUST NO 1	66,666,667	6.54
VIMINALE PTY LTD ATF DA PAGANIAN FAMILY TRUST NO 2	66,666,666	6.54
TOTAL	**289,767,076**	**28.41**

(d) Unlisted securities

The names of holders of 20% or more of unlisted options and the number or unlisted options each holds as at 20 March 2018

Name	Number	%
MATTHEW MCNEILL WORNER	30,000,000	33.33

(e) Voting rights of ordinary fully paid shares

Subject to the Constitution and to any rights or restrictions attaching to any class of shares, every member is entitled to vote at a general meeting of the Company. Subject to the Constitution and the Corporations Act, every member present in person or by proxy, representative or attorney at a general meeting has, on a show of hands, one vote, and on a poll, one vote for each fully paid ordinary share held by the member.

(f) Voting rights of unlisted options

The fully paid ordinary shares issued on exercise of the unlisted options will rank equally with all other fully paid ordinary shares.

(g) Escrowed or restricted securities

There are no restricted securities or securities subject to voluntary escrow as at 20 March 2018.

(h) On-market buy-back

There is no current on-market buy-back program.

(i) Business Objectives

The Company has used its cash and assets that are readily convertible to cash in a way consistent with its business objectives.

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	*Corporations Act 2001* (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 *Related Party Disclosures* 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
mcfgpd	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
NSAI	Netherland, Sewell & Associates, Inc.
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 statement

The reserves estimates shown herein have been independently evaluated by Netherland, Sewell & Associates, Inc. (NSAI), a worldwide leader of petroleum property analysis for industry and financial organizations and government agencies. NSAI was founded in 1961 and performs consulting petroleum engineering services under Texas Board of Professional Engineers Registration No. F-2699. Within NSAI, the technical person primarily responsible for preparing the estimates set forth in the NSAI reserves report incorporated herein is Mr Neil H. Little. Mr Little has been practicing consulting petroleum engineering at NSAI since 2011. Mr Little is a Licensed Professional Engineer in the State of Texas (No. 117966) and has over 15 years of practical experience in petroleum engineering, with over 8 years' experience in the estimation and evaluation of reserves. He graduated from Rice University in 2002 with a Bachelor of Science Degree in Chemical Engineering. Mr Little meets or exceeds the education, training, and experience requirements set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers. Mr Little is proficient in judiciously applying industry standard practices to engineering and geoscience evaluations as well as applying ASX and other industry reserves definitions and guidelines. The statements contained in this Annual Report about the Company's reserves estimates have been approved, and are based on, and fairly represent, information and supporting documentation prepared by, or under the supervision of, Mr Little. Mr Little is a member of the Society of Petroleum Engineers, and is qualified in accordance with ASX Listing Rules and has consented to the inclusion of the estimates and the supporting information in the form and context in which they appear.

CORPORATE DIRECTORY

Directors
Peter Love (Non-Executive Chairman)
Troy Harry (Non-Executive Director)
Roger Steinepreis (Non-Executive Director)
Matthew Worner (Non-Executive Director)

Company Secretary
Lauren Nelson

Share Registry
Computershare Investor Services Pty Ltd
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Bankers
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Perth WA 6005

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