



Talon Petroleum Limited

ABN 88 153 229 086

**Interim financial report
for the period ended
30 June 2019**

TALON PETROLEUM LIMITED

Consolidated Interim Financial Report 30 June 2019

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TALON PETROLEUM LIMITED

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Corporate Directory

Directors

Peter Stickland
Non-Executive Chairman

Matt Worner
Managing Director

Graham Doré
Non-Executive Director

Stephen Jenkins
Non-Executive Director

Company Secretary

Lauren Nelson

Registered Office and Principal Place of Business

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

Auditors

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

Share Registry

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

Securities Exchange Listing

Australian Securities Exchange Limited
ASX Code: TPD

Website

www.talonpetroleum.com.au

TALON PETROLEUM LIMITED

Consolidated Interim Financial Report 30 June 2019

Directors' Report

The Board of Directors of Talon Petroleum Limited ("the Consolidated Entity" or "the Company") has pleasure in presenting its report on the Company for the half-year ended 30 June 2019.

Directors and Company Secretary

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

Peter Stickland	Non-Executive Chairman
Matt Worner	Managing Director
Graham Doré	Non-Executive Director (appointed 15 May 2019)
Stephen Jenkins	Non-Executive Director (appointed 7 June 2019)
Lauren Nelson	Company Secretary
Peter Love	Resigned 12 March 2019
Roger Steinepreis	Resigned 30 June 2019

Review and Results of Operations

The directors provide the following comments on the operations of the Group for the half-year ended 30 June 2019.

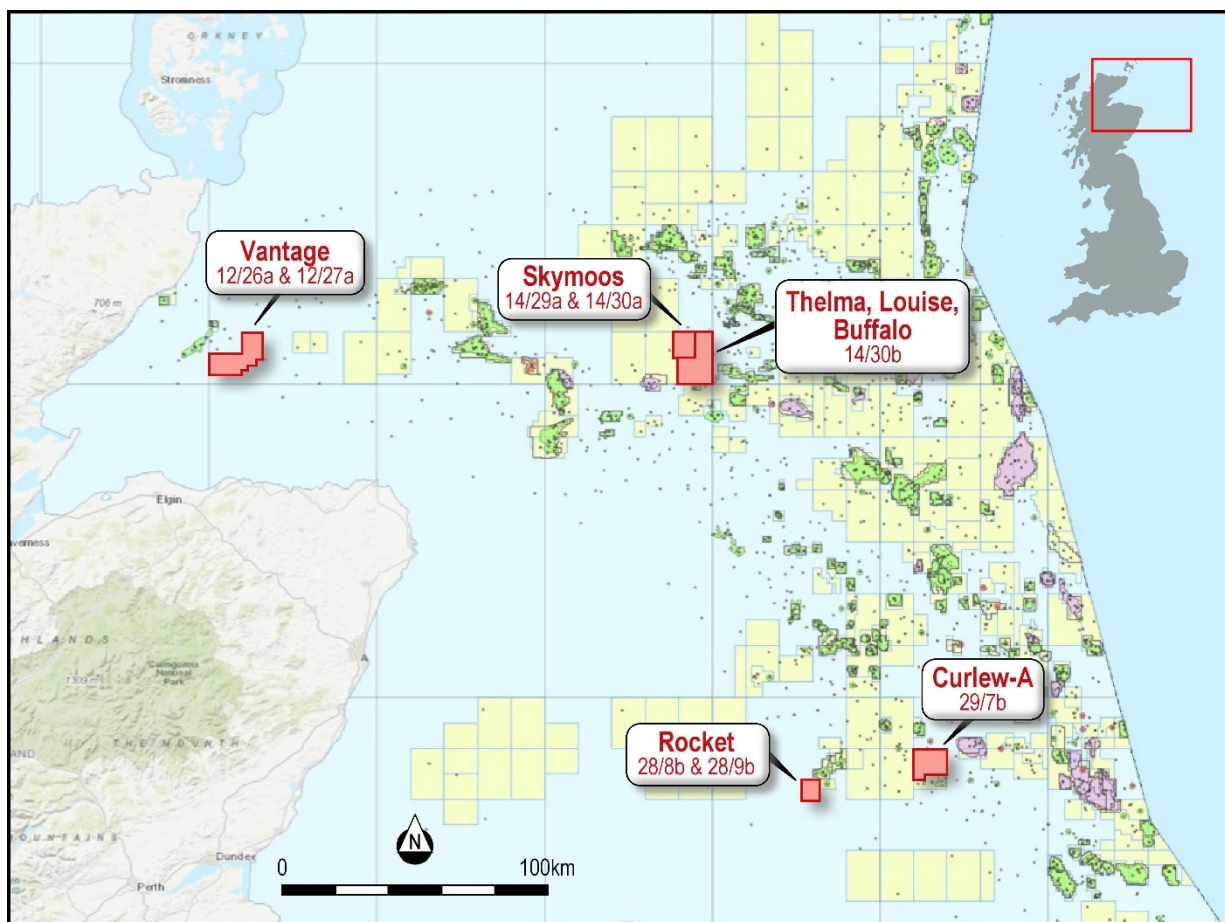
In the first half of the year Talon made significant progress in executing its UK North Sea strategy, which is focused on delivering long term shareholder value by establishing a strong exploration portfolio in one of the world's great, proven oil and gas provinces.

Talon's decision to take an interest in the UK North Sea is based on the region's proven potential and continuing discovery record. Key investment features of the UK North Sea include:

- Prolific oil and gas province with over 50 years of oil and gas production and ~43 billion barrels of oil and gas recovered
- Low sovereign risk jurisdiction, with a stable and supportive regulatory environment with solid fiscal terms
- The UK Oil and Gas Authority says that finding costs in 2018 were just over USD\$1 per barrel
- Significant recoverable resource potential remains and major discoveries still being made
- Abundant and world class infrastructure allowing for capital efficient developments
- The timing is right with a number of strong opportunities available, and increased activity within the region, including regular bid rounds for further acreage capture
- High quality subsurface database

The Company has acquired a number of prospective licences, through its acquisition of EnCounter Oil Limited (EnCounter) and through awards from the UK Oil and Gas Authority's competitive licencing rounds.

Directors' Report



Talon's UK North Sea Portfolio

Acquisition of EnCounter Oil Limited

The key development for the period was the acquisition of EnCounter Oil Limited (EnCounter). The acquisition was supported by shareholders at the Company's March 12 General Meeting.

The transaction provides Talon with 100% ownership of two high-impact UK North Sea exploration licences (Skymoos & Rocket), which have since undergone further technical evaluation and which are now being actively farmed-out.

The acquisition also provides Talon with access to a significant UK North Sea technical database.

Importantly, the acquisition of EnCounter has brought valuable UK North Sea experience into Talon, in the form of EnCounter founders Graham Doré and Paul Young. Both Mr Doré and Mr Young have a first-class record of generating discoveries in the UK North Sea. Mr Doré has joined Talon as a Non-Executive Director, and Mr Young has taken the position of Geoscience Manager.

Overview of EnCounter Oil Limited

EnCounter was a private, UK based company formed in 2012 by key members of the former executive management team of EnCore Oil plc ("EnCore").

EnCore was a London-listed, North Sea focussed E&P company which formed in 2005. EnCore was involved in 25 wells and was responsible for significant hydrocarbon discoveries at Breagh, Cladhan, Catcher, Varadero and Burgman, as well as several other smaller discoveries.

Directors' Report

EnCore was acquired by Premier Oil in 2011 for £221 million.

Graham Doré (Technical Director) and Paul Young (Geoscience Manager) were foundation members of EnCore and were pivotal in the growth and development of the business up until its acquisition by Premier Oil. Mr Doré and Mr Young, along with former EnCore CEO, Alan Booth are founders of EnCounter.

Between 2012 and 2018, EnCounter has acquired a small portfolio of UK Central North Sea assets, and in 2016 successfully farmed out and drilled the Bagpuss heavy oil discovery.

EnCounter's assets

The EnCounter transaction brought with it two key exploration assets:

- The 107mmbo (best estimate prospective resource) **Skymoos Prospect** located in Blocks 14/29 and 14/30b
- **Licence 2392** which hosts the 27mmbo (best estimate prospective resource) **Rocket Prospect** located in Blocks 28/8b and 28/9b

Both of these high impact exploration licences have low cost work program commitments in their initial work phases.

The **Rocket Prospect** lies entirely within the Innovate Phase A **Licence P2392**, which was awarded to EnCounter during October 2018, as part of the UKCS 30th Seaward Licensing Round. The Licence is formed by two blocks bordering the greater Catcher Field development area, which was discovered by EnCore prior to its sale to Premier.

Located in the oil-rich western margin of the North Sea Central Graben, and adjacent to analogous discoveries of the Greater Catcher Area, Rocket is a stratigraphic Palaeocene age Cromarty reservoir prospect, with additional potential in the overlying Tay sand.

Should the Rocket Prospect be successful, the development of the field will be via a short tieback to the recently commissioned Catcher Area development facility

Based on normal risking methodology used in the oil and gas industry an estimated probability of commercial success for the Rocket Prospect, after all technical work has been completed, is in the range 20-30%.

Licence P2363 is an Innovate Phase A Licence which was awarded to EnCounter in October 2018. The Licence is located in the Outer Moray Firth, west of the Scott and Telford Fields, and north of the recent Equinor Verbier Discovery in the Burns Sandstone. The Licence, comprising Blocks 14/29a and 14/30a, contains the **Skymoos Prospect**, which is a structural/stratigraphic closure also within Upper Jurassic age Burns Sandstone reservoir. Additional prospectivity is recognised within the underlying Claymore Sandstones.

Skymoos sits on trend with a number of developed oil and gas discoveries in an area of prolific hydrocarbon charge. The structure is dip-closed in all directions, other than to the east where, from vintage well control, the Burns sand is known to be absent.

The targeted play type has proved successful in recent years at fields such as Buzzard but remains untested in the block, as nearby prior drilling has not had the benefit of 3D seismic data.

Based on normal risking methodology used in the oil and gas industry an estimated probability of commercial success for the Skymoos Prospect, after all technical work has been completed, is in the range 20-30%.

Directors' Report

Skymoos and Rocket activity update

During the period, Talon licensed additional high-quality 3D seismic data over both Rocket and Skymoos and integrated these data into its prospect assessment. The Company also commenced a farmout process to secure industry partners to provide expertise and funding to support the drilling of these potential high-impact exploration targets.

Talon has received strong interest from potential partners and is confident of securing a farm-in partner for both assets.

Talon awarded new North Sea Exploration Licence

In June, Talon was awarded an exploration licence in the UK Oil and Gas Authority's 31st Seaward Licensing Round. The offer of a 50% interest in Blocks 12/26a and 12/27a was the fourth UK North Sea asset acquired by Talon since the Company embarked on its UK North Sea strategy.

The Licence area includes the Vantage Prospect, an Upper Jurassic stratigraphic trap updip with a known oil discovery and containing a 44mmbo (best estimate) prospective resource. Based on normal risking methodology used in the oil and gas industry, an estimated probability of commercial success for the Vantage Prospect, after all technical work has been completed, is expected to be in the range of 20-30%.

Talon jointly applied for the Licence with Geoscience Services Limited (GSL), a company of which Graham Dorè and Paul Young are directors. The bid for the Licence was made prior to the Company entering into the transaction with EnCounter Oil Limited, which brought Mr Dorè and Mr Young to the Talon team.

Work program commitments for the initial two-year phase of the Licence include:

- Poststack processing of 500km² of existing 3D seismic data
- Licensing of 150 line km of existing 2D seismic data

Talon's expected share of the costs, based on its 50% interest, is approximately \$60,000.

Curlew-A appraisal project

Talon has a 10 per cent interest in the 39mmboe 2C Curlew A discovery. Curlew -A is reservoir in Cromarty Sandstone, which houses several major discoveries including Catcher, which was discovered by Graham Doré prior to joining Talon and is now producing. Curlew-A was originally discovered by Shell in 1979, and represents a potentially low cost, low risk appraisal opportunity of high-quality oil in a shallow reservoir with tie-back opportunities to nearby infrastructure.

During the half, Operator Corallian continued its farmout process for the asset, and site survey operations over the proposed location of the Curlew-A appraisal well were undertaken in July, in preparation for drilling in the New Year. Post the period, there was a reduction in the certified Contingent Resource initially reported at Curlew-A from a gross 2C Contingent Resource of 45mmboe to 39mmboe (3.9mmboe net to Talon). The reduction was due to the incorrect calculation of associated gas numbers in the initial Curlew-A Competent Person's Report, which had the effect of reducing the overall Contingent Resource on a barrel of oil equivalent basis.

Importantly, the gross 2C Contingent Resource for recoverable oil in respect of Curlew-A remained unchanged at 36.2mmboe.

TALON PETROLEUM LIMITED

Consolidated Interim Financial Report 30 June 2019

Directors' Report

US Assets

During the half year, the Company continued its efforts to rationalise its legacy onshore US asset portfolio. As part of this process, the Company completed an assignment on the Hoskins #1 well and associated leases in order to settle a potential dispute with the land owner of these leases. Any obligation to abandon the Hoskins #1 well and associated facilities was also assigned to the land owner.

Additionally, the portion of the leases, known as the Teal area was also assigned and a cash amount of USD\$20,00 was received.

The Company is working to complete the divestment of its remaining US lease position and this is expected to be finalised soon.

Financial Results

During the half-year the group delivered a loss after income tax of \$797,220 (2018: \$327,212). Oil and gas sales for the half-year totalled \$45,981 (2018: \$55,840). The cash balance as at 30 June 2019 was \$2,607,764 (2018: \$2,158,297).

Dividends Paid or Recommended

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

Corporate

Successful capital raising

During the period Talon successfully raised \$1.25 million through the issue of 416,666,667 shares at an issue price of \$0.003 to sophisticated investors. Chieftain Securities Pty Ltd was the Corporate Advisor and Lead Manager to the placement.

Approval for the placement was approved by shareholders at the General Meeting on 12 March 2019.

Board changes to drive UK North Sea strategy

Part of Talon's strategy is to ensure it has the best people in place to drive its UK North Sea ambitions. In addition to the appointment of Graham Doré earlier in 2019, the Company added significant strength to its UK North Sea capability with the appointment of Mr Stephen Jenkins as a Non-Executive Director in June.

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

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

Mr Jenkins is currently Chairman of the UK Oil and Gas Independents Association, and Non-Executive Chairman of both Savannah Petroleum plc, an AIM listed E&P company focussed on Africa, and Terrain Energy, a private company with oil and gas interests in the onshore UK and Germany.

Mr Jenkins was a founding shareholder and director of EnCounter Oil plc, which was acquired by Talon earlier this year.

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Directors' Report

During the period both Mr Peter Love and Mr Roger Steinepreis resigned as a Directors of the Company. Both men played a key role in re-positioning the company with a strong capital base and a clear strategy targeting exploration opportunities in the UK North Sea. Following the resignation of Mr Love, Peter Stickland was appointed Chairman of the Company. Mr Stickland has been a Non-executive Director of Talon since October 2018.

Annual General Meeting

The Talon Annual General Meeting was held on the 31 May 2019.

Resolutions put to shareholders at the meeting were carried unanimously on a show of hands.

Subsequent Events

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

TALON PETROLEUM LIMITED

Consolidated Interim Financial Report 30 June 2019

Directors' Report

Auditor's Independence Declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 11 for the half-year ended 30 June 2019.

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

A handwritten signature in black ink, appearing to read 'Peter Stickland', with a long horizontal flourish extending to the right.

Peter Stickland

Non-Executive Chairman

Dated 9 September 2019

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

As lead auditor for the review of Talon Petroleum Limited for the half-year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

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

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



Dean Just
Director

BDO Audit (WA) Pty Ltd
Perth, 9 September 2019

TALON PETROLEUM LIMITED
Consolidated Interim Financial Report 30 June 2019
Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 30 June 2019

	Note	30-June-19 \$	30-June-18 \$
Revenue		45,981	55,840
Cost of oil and gas sold		(15,563)	(70,908)
Net gain on sale of oil and gas		30,418	(15,068)
Other income		20,242	405
Employee benefit expenses		(47,403)	(30,477)
Professional and consultancy fees		(127,451)	(79,748)
Marketing and travel expenses		(107,842)	(24,448)
Corporate expenses		(17,298)	(12,200)
Directors' fees		(187,725)	(72,471)
Administrative expenses		(56,865)	(37,200)
Exploration expenditure		(192,239)	-
Impairment on oil and gas properties reallocated to held for sale	3a)	(205,757)	-
Depletion expense		(27,392)	-
Other expenses		(20,892)	(63,684)
Gain on sale of Oil and Gas Property		145,749	-
Finance costs		(2,765)	(103)
Loss before income tax		(797,220)	(327,212)
Income tax benefit		-	-
Loss after income tax		(797,220)	(327,212)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation differences, net of tax		(1,127)	2,551
Other comprehensive income (net of tax) for the period		(1,127)	2,551
Total comprehensive (loss) attributable to owners of the Company		(798,347)	(324,661)
		Cents	Cents
Basic earnings / (loss) per share		(0.05)	(0.03)
Diluted earnings / (loss) per share		(0.05)	(0.03)

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

TALON PETROLEUM LIMITED
Consolidated Interim Financial Report 30 June 2019
Consolidated Statement of Financial Position

As at 30 June 2019

	Note	30-June-19 \$	31-Dec-18 \$
CURRENT ASSETS			
Cash and cash equivalents		2,607,764	2,158,297
Trade and other receivables		23,596	10,064
Prepayments		28,375	38,183
Security deposit		71,205	-
Assets held for sale	3b)	49,843	-
Total Current Assets		2,780,783	2,206,544
NON CURRENT ASSETS			
Security deposit		-	70,883
Oil and gas properties	3a)	-	283,105
Exploration and evaluation assets	4	341,137	-
Total Non-Current Assets		341,137	353,988
TOTAL ASSETS		3,121,920	2,560,532
CURRENT LIABILITIES			
Trade and other payables		161,654	125,498
Borrowing	5	-	-
Provisions	6a)	7,833	21,265
Liabilities held for sale	3c)	207,022	-
Total Current Liabilities		376,509	146,763
NON-CURRENT LIABILITIES			
Provisions	6b)	1,424	327,889
Total Non-Current Liabilities		1,424	327,889
TOTAL LIABILITIES		377,933	474,652
NET ASSETS		2,743,987	2,085,880
CONTRIBUTED EQUITY			
Issued share capital	7	38,183,402	36,726,948
Reserves		2,857,756	2,858,883
Accumulated losses		(38,297,171)	(37,499,951)
TOTAL EQUITY		2,743,987	2,085,880

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

TALON PETROLEUM LIMITED
Consolidated Interim Financial Report 30 June 2019
Consolidated Statement of Changes in Equity

For the half year ended 30 June 2019

	Issued Share capital	Share based payment reserve	Foreign Currency Translation Reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$
Balance at 1 January 2019	36,726,948	200,355	2,658,528	(37,499,951)	2,085,880
Total comprehensive income for the period					
Loss after income tax expense for the period	-	-	-	(797,220)	(797,220)
Foreign exchange translation differences	-	-	(1,127)	-	(1,127)
Total comprehensive income for the period	-	-	(1,127)	(797,220)	(798,347)
Transactions with owners, recorded directly in equity					
Issue of shares, net of transaction costs	1,456,662	-	-	-	1,456,662
Payment of unclaimed small lot process funds	(208)	-	-	-	(208)
Balance at 30 June 2019	38,183,402	200,355	2,657,401	(38,297,171)	2,743,987
Balance at 1 January 2018	36,052,675	190,605	2,658,257	(36,567,755)	2,333,782
Total comprehensive income for the period					
Loss after income tax expense for the period	-	-	-	(327,212)	(327,212)
Foreign exchange translation differences			2,551	-	2,551
Total comprehensive income for the period	-	-	2,551	(327,212)	(324,661)
Transactions with owners, recorded directly in equity					
Issue of shares, net of transaction costs	(937)	-	-	-	(937)
Balance as at 30 June 2018	36,051,738	190,605	2,660,808	(36,894,967)	2,008,184

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

TALON PETROLEUM LIMITED
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Consolidated Statement of Cash Flows

For the half year ended 30 June 2019

	30-June-19	30-June-18
	\$	\$
<i>Cash flows from operating activities</i>		
Cash receipts from customers	45,867	59,541
Payments to suppliers and employees	(587,716)	(370,660)
Payment of exploration and expenditure	(192,239)	
Interest received	20,242	7,782
Interest paid	-	(25,102)
Net cash used in operating activities	(713,846)	(328,439)
<i>Cash flows from investing activities</i>		
Proceeds from sales of exploration lease	28,312	-
Net cash provided by investing activities	28,312	-
<i>Cash flows from financing activities</i>		
Proceeds from the issuance of shares	1,250,000	-
Share issue costs	(93,338)	(937)
Repayment of borrowings	-	(275,000)
Repayment of unclaimed small lot process funds	(208)	-
Net cash provided by / (used in) financing activities	1,156,454	(275,937)
Net increase/(decrease) in cash and cash equivalents	470,920	(604,376)
Cash and cash equivalents at beginning of period	2,158,297	2,563,685
Foreign exchange movement of cash	(21,453)	(1,432)
Cash and cash equivalents at end of period	2,607,764	1,957,877

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

Notes to the Condensed Consolidated Financial Statements

For the half year ended 30 June 2019

NOTE 1. CORPORATE INFORMATION

Talon Petroleum Limited (the “Company” or “Talon”) is a company domiciled in Australia whose shares are publicly listed on the ASX (ASX code: TPD). The consolidated interim financial report of the Company as at and for the half-year period ended 30 June 2019 comprises the Company and its subsidiaries (together referred to as the “Group”).

This consolidated interim financial report was approved by the Board of Directors on 9 September 2019.

Talon is a Company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The principal activity of the Group during the half year was to execute and develop its UK North Sea strategy.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of Compliance

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

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated financial report of the Group as at and for the year ended 31 December 2018, and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The consolidated annual financial report of the Group as at and for the year ended 31 December 2018 is available upon request from the Company’s registered office at 1202 Hay Street, West Perth WA 6005 or at www.talonpetroleum.com.au.

b. Basis of Preparation

The condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group’s 2018 annual financial report for the financial year ended 31 December 2018, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

c. New accounting standards and interpretations

Accounting standards that are mandatorily effective for the current reporting period

The Company has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 January 2019.

New and revised standards and amendments thereof and Interpretations effective for the current year that are relevant to the Company include:

Notes to the Condensed Consolidated Financial Statements

For the half year ended 30 June 2019

AASB 16 Leases

The Company adopted this new standard effective 1 January 2019. The standard establishes a new framework for the recognition of leases on the balance sheet. Leases previously categorised 'operational leases' would be reclassified as lease liabilities under the new standard. The Group considered that there was no impact on the adoption of this new standard to its financial statements.

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. 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 \$797,220 (2018: \$327,212) in the half year ended 30 June 2019. The Group has cash on hand of \$2,607,764 as at 30 June 2019 (2018: \$2,158,297) and net cash operating outflows were \$713,846 (2018: \$328,439) for the six-month period ended 30 June 2019.

Management has prepared cash flow projections for the period to 30 September 2020 that support the ability of the Group to continue as a going concern. These 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.

e. Estimates

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Acquisition of Encounter Oil Limited

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

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 December 2018.

f. Segment reporting

The Group determines operating segments based on the information that internally is provided to the Board. 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.

The Group operates within one business segment (the petroleum exploration and production industry) and two geographical segments, the United Kingdom ('UK') and the United States of America ('USA').

Geographical information

The geographical locations of the Group's non-current assets are in the UK and USA.

Seasonality and cyclicalities

The Group's gas prices received may be indirectly affected by seasonal impacts on demand and other factors including storage levels and well location in relation to infrastructure. Oil prices are determined globally and are impacted by world events, storage, production and infrastructure.

Notes to the Condensed Consolidated Financial Statements

For the half year ended 30 June 2019

Seasonality has not had a material impact on the Group's operations in the interim period.

g. Asset acquisition

Where an acquisition does not meet the definition of a business combination the transaction is accounted for as an asset acquisition. The consideration transferred for the acquisition of an asset comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs with regards to the acquisition are capitalised. Identifiable assets acquired and liabilities assumed in the acquisition are measured at their fair value at the acquisition date.

Where settlement of any part of cash consideration is deferred and/or contingent, the probability of making these future payments are assessed as at acquisition date and measured accordingly. The amounts of payable in the future are discounted to their present value as at the date of exchange. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

h. Exploration and evaluation expenditure

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

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

NOTE 3. OIL AND GAS PROPERTIES

	30-Jun-19	31-Dec-18
	\$	\$
a. Oil and gas properties		
Cost		
Balance at 1 January	2,162,616	2,116,477
Impairment expense during the period	(205,757)	(123,589)
Fair value adjustment during the period	(1,904,994)	-
Transfer to assets held for sale (note 3b)	(49,843)	-
Foreign exchange translation	(2,022)	169,728
Balance at end of period	-	2,162,616
Accumulated depletion		
Balance at 1 January	(1,879,511)	(1,695,164)
Fair value adjustment during the period / depletion (expense)	1,877,601	(48,819)
Foreign exchange translation	1,910	(135,528)
Balance at end of period	-	(1,879,511)
Carrying amounts		
At 1 January	285,105	421,313
At end of period	-	285,105

TALON PETROLEUM LIMITED**Consolidated Interim Financial Report 30 June 2019****Notes to the Condensed Consolidated Financial Statements**

For the half year ended 30 June 2019

b. Assets classified as held for sale	30-Jun-19	31-Dec- 18
	\$	\$
Oil and gas properties - carrying value	49,843	-
	49,843	-
c. Liabilities classified as held for sale	30-Jun-19	31-Dec- 18
	\$	\$
Oil and gas properties – restoration provision	205,787	-
Foreign exchange translation	1,235	-
	207,022	-

The Group are currently in on-going discussions with an interested party for the divestment of its Wheeler, Quintanilla and Olmos 1H wells located onshore Texas, USA, following which, and in line with relevant financial report requirements, the carrying value of these assets were reclassified as 'held-for-sale'. During the period the disposal of the Teal lease, also onshore Texas, USA, completed for a consideration of USD\$20,000.

NOTE 4. ASSET ACQUISITION

On 25 January 2019 the Company entered into a Heads of Agreement to acquire 100% of Encounter Oil Ltd ('Encounter') which holds a 100% interest in the Skymoos and Rocket prospects. Shareholder approval was granted at the General Meeting held on 12 March 2019 and TPD subsequently entered into a fully signed Share Sale Agreement on 10 April 2019. On 15 May 2019 all conditions precedent were completed, with consideration in the form of:

- 100m ordinary shares; and
- 300m class A and B performance shares, contingent on achieving two milestones.

In line with relevant accounting standards Encounter does not meet the definition of a business and is therefore not within the scope of IFRS 3; the transaction is that of an asset acquisition, and a share-based payment transaction under AASB 2 Share Based payments.

Consideration**100m ordinary shares issued at \$0.03****30-Apr -19****\$****300,000**

TALON PETROLEUM LIMITED**Consolidated Interim Financial Report 30 June 2019****Notes to the Condensed Consolidated Financial Statements**

For the half year ended 30 June 2019

As at completion date, deemed as 30 April 2019, the net assets of Encounter consisted of:

	30-Apr-19
	\$
Identifiable net assets	
Assets	
Assets	-
Total assets	-
Liabilities	
Trade and other payables	11,462
Provisions	29675
Total liabilities	41,137
Net liabilities at 30 April 2019	(40,895)
Add: Consideration	300,000
Total exploration and evaluation assets	341,137

Performance shares

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

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

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

NOTE 5. BORROWINGS**Interim period to 30 June 2019**

There were no borrowings in the current period.

Year ended 31 December 2018

The \$275,000 unsecured loan and an amount of \$25,000 for full and final settlement of all interest and establishment fee obligations relating to a financing arrangement with Rocket Science Pty Ltd associated with a previous Director of the Company) was paid by the Company in January 2018.

TALON PETROLEUM LIMITED
Consolidated Interim Financial Report 30 June 2019
Notes to the Condensed Consolidated Financial Statements

For the half year ended 30 June 2019

NOTE 6. PROVISIONS

	30-Jun-19	31-Dec-18
	\$	\$
a. Current		
i. Restoration provision		
Balance at 1 January	21,265	70,513
Fair value adjustment during the period	-	(53,491)
Transfer to liabilities held for sale (note 3c)	(21,234)	
Foreign exchange translation	(31)	4,243
Balance at end of period	-	21,265
ii. Annual leave provision		
Balance at 1 January	-	-
Provision during the period	7,833	-
Balance at end of period	7,833	-
Total current provision	7,833	21,265
b. Non - Current		
i. Restoration provision		
Balance at 1 January	327,889	296,526
Fair value adjustment during the period	(141,445)	-
Transfer to liabilities held for sale (note 3c)	(184,553)	-
Foreign exchange translation	(467)	31,363
Balance at end of period	1,424	327,889
Total non-current provision	1,424	327,889

NOTE 7. SHARE CAPITAL

	30-Jun-19	31-Dec-18	30-Jun-19	31-Dec-18
	Ordinary shares (number)	Ordinary shares (number)	\$	\$
On issue at 1 January	1,260,122,858	1,020,122,858	36,726,948	36,052,675
On issue at end of period – fully paid	1,776,789,525	1,260,122,858	38,183,402	36,726,948

TALON PETROLEUM LIMITED**Consolidated Interim Financial Report 30 June 2019****Notes to the Condensed Consolidated Financial Statements**

For the half year ended 30 June 2019

Movements in shares on issue during the period were as follows:

Date	Details	Number of shares	Issue price \$	Amount \$
	Balance at beginning of year	1,260,122,858		36,726,948
18 March 2019	Placement to professional and sophisticated investors ¹	416,666,667	0.003	1,250,000
07 May 2019	Repayment of unmarketable small lot fund ²			(208)
15 May 2019	Share issued to vendor ³	100,000,000	0.003	300,000
	Less: Costs of issue			(93,338)
	Closing balance at 30 June 2019	1,776,789,525		38,183,402

		Number of shares	Issue price \$	Amount \$
	Balance at beginning of year	1,020,122,858		36,052,675
05 November 2018	Placement to professional and sophisticated investors	240,000,000	0.003	720,000
	Less: Costs of issue			(45,727)
	Closing balance at 31 December 2018	1,260,122,858		36,726,948

¹On 18 March 2019 the Company issued 416,666,667 ordinary shares at \$0.003 per share through a placement to professional and sophisticated investor

²On 7 May 2019 the Company repaid \$208 of unclaimed monies in connection with the small lot process which was completed in May 2015; the unclaimed money was repaid to the holder in accordance with its constitution.

³On 15 May 2019 the Company issued 100,000,000 ordinary shares at \$0.003 per share to the vendor of Encounter oil Limited (refer note 4).

NOTE 8. DIVIDENDS

There are no dividends paid or declared during the period.

NOTE 9. SUBSEQUENT EVENTS

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

TALON PETROLEUM LIMITED

Consolidated Interim Financial Report 30 June 2019

Directors' Declaration

The Directors of the Company declare that:

1. the interim financial statements and notes, are in accordance with the *Corporations Act 2001* and:
 - a) comply with Australian Accounting Standard AASB134 Interim financial reporting and the Corporations Regulations 2001; and
 - b) give a true and fair view of the Consolidated entity's financial position as at 30 June 2019 and its performance for the half year ended on that date; and
2. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors, pursuant to s 303(5) of the Corporations Act.



Peter Stickland

Non-Executive Chairman

Dated 9 September 2019

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Talon Petroleum Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Talon Petroleum Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Directors' responsibility for the Half-Year Financial Report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 30 June 2019 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

The image shows a handwritten signature in black ink. The signature appears to be 'Dean Just' written in a cursive, stylized script. Above the signature, the letters 'BDO' are written in a simple, blocky, handwritten font.

Dean Just

Director

Perth, 9 September 2019

TALON PETROLEUM LIMITED

Consolidated Interim Financial Report 30 June 2019

Glossary

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