



**INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED
30 JUNE 2014**

ABN 88 153 229 086

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About this report

This report is a summary of Talon Petroleum Limited's operations, activities and financial position for the six months ended 30 June 2014. 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.

Company profile

Talon Petroleum Limited is a Texas and Gulf Coast focused exploration and appraisal company listed on ASX (ASX code: TPD). Talon's strategy is to invest in multi-well oil projects that are located within areas with good production infrastructure employing horizontal drilling and advanced fracing technologies. The projects target oil in resource plays (shales) or in low permeability conventional reservoirs that originally produced only a small fraction of the hydrocarbons in-place (old fields with tight reservoirs) where recoveries can be improved with new technologies. Funding to drill the proof of concept tests in the early projects will come from selling down in large acreage blocks.

Talon's current portfolio reflects the strategy and consists of consists of seven projects located in East and South Texas, USA. Talon is headquartered in Brisbane, Australia with an office in Houston, Texas, USA. Additional information is available on Talon's website: www.talonpetroleum.com.au

DIRECTORS' REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2014

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 six months ended 30 June 2014 ("1H14") and the auditor's report thereon.

1. DIRECTORS

The Directors of the Company during or since the end of 1H14 are:

Jeffrey Forbes

(Chairman – Non-Executive)

Clifford S. Foss Jr

(CEO, President and Managing Director)

David Mason

(Non-Executive) (*retired 25 June 2014*)

Angus Douglas

(Non-Executive)

Bruce Cowley

(Non-Executive)

All Directors held office during and since the end of 1H14 unless otherwise indicated. Details of the qualifications, experience and responsibilities of the Directors are set out on pages 22 to 24 of the Company's 2013 Annual Report available on Talon's website.

2. COMPANY SECRETARY

Anastasia Maynes

3. FINANCIAL REVIEW

The Company recorded a loss of \$3,870,741 (2013: loss \$6,461,751) for the period, with no income tax expenses recorded for 1H14 or 1H13. The Company's loss for 1H14 decreased as compared to 1H13 primarily due to higher write-offs of exploration expenses in 1H13 (2013: \$3,634,157) and impairments recognised for the Hoskins #2 well (2013: \$2,228,708). In 1H14 impairment expense of \$2,960,659 was recognised for the Hoskins #1 well and the Bonner 1H well.

Revenue for the six month period was \$288,244 (2013: \$303,119), a decrease of \$14,875 or 5%. During the 1H14 period both the Hoskins #2 and Hoskins #1 wells were shut in. Sales of oil production from the Wheeler #1 yielded 1.04 mbbbl with 0.34 mbbbl contributed from the Hoskins #1. The Bonner 1H well which moved from the evaluation stage to oil and gas production contributed with sales of 1.3 mbbbl oil and 0.98 mmcf of gas.

The West Texas Intermediate crude oil price averaged about US\$101/bbl in 1H14 as compared to US\$94/bbl in 1H13.

Exclusive of \$63,448 in well maintenance and repair costs included in administrative expenses, initial cost reduction measures have resulted in a 9% decrease in employee benefits and administrative expenses for 1H14 as compared to 1H13, \$881,296 (2013: 968,730), and are expected to produce a more significant impact by year end.

Cash including short term financial assets at 30 June 2014 was \$1.7 million (31 December 2013: \$3.9 million). Net tangible assets per Share at 30 June 2014 was \$0.08/Share (31 December 2013: \$0.12/Share).

4. REVIEW AND RESULTS OF OPERATIONS

(a) Overview and highlights during 1H14

The first six months of 2014 saw the Company progress its strategy to grow shareholder value, with a number of operational initiatives and achievements occurring during and since the period including:

- **Mosman Rockingham (MR) Olmos Project:**
 - Talon formed a new joint participation group with three other companies to allow Talon to drill the proof of concept well at 10% WI on a small 199-acre lease and upon success retain 50% WI in the remaining 3,600 acres in the project. Preparations for drilling the proof of concept well, a horizontal Olmos well, were completed.
 - Letter of intent signed to create a joint study area with another lease owner in the area to review the viability of expanding the Company's MR Olmos position.
- **Angourie Prospect:** Encouraging results with preliminary initial well test was 800 mcf/gpd and 8 bcpd on an 8/64 inch choke with a flowing tubing pressure of 2,050 psi.
- **Roundhouse – Rodessa:** Recently spud Brice Bonner #1 well averaging 30 bopd.
- **Roundhouse Prospect:** Final insurance compensation received for the pipe problems in the Bonner 1H well. Collectively, all compensation equalled US\$786,898.17.
- **Increased 3P Reserves:** 1P reserves of 131 mboe, 2P reserves of 595 mboe and 3P reserves of 2,735 mboe as at mid-year 2014 which is an increase of 31% over the 3P reserves of 2,093 mboe at mid-year 2013 for the Olmos formation.
- **Corporate:**
 - Cost reduction strategy initiated.
 - Completed 1-for-1 fully underwritten entitlement that raised A\$1.12 million subsequent to 30 June 2014.
- **Litigation:** Settlement reached with SEA in relation to its claims against escrow funds.

A summary and location of Talon's projects is set out below.

Diagram 1 – Location of Talon Projects in the USA



Table 1 - Talon's portfolio of exploration, development and production assets as at 30 June 2014

Prospect Name	Location	Target	WI	Net Leasehold Acres held
Mosman Rockingham (MR) Olmos	McMullen County, South Texas	Olmos	10-100%	Approximately 3,620
Angourie	Jackson County, South Texas	Yegua	10%	Approximately 23
Roundhouse	Navarro County, East Texas	Rodessa & Cotton Valley Lime	1-97%	Approximately 6,860

Sunshine	DeWitt County, South Texas	Wilcox	10%	Awaiting Assignment
East Banks	Henderson County, East Texas	Rodessa	82%	Approximately 800
Catfish Creek	Anderson County, East Texas	Rodessa	97%	Approximately 1,175
Redfish	Smith County, East Texas	Rodessa	97%	Approximately 695
Dunsborough	Jackson County, South Texas	Cook Mountain	15%	Approximately 45
Coolangatta	Colorado County, South Texas	Wilcox	25%	Approximately 54 Assignment pending
TOTAL:				Approximately 13,270

(b) Mosman Rockingham (MR) Olmos

About Mosman Rockingham (MR) Olmos

The Mosman Rockingham (MR) Olmos sand horizontal oil play is located in McMullen County, South Texas. With over 3,800 gross leasehold acres, there is potential for an additional 14 horizontal well locations in which Talon currently has approximately a 3,620 net leasehold acreage with WI varying between 10% and 100%. Based on nearby analog horizontal well performance, the gross contingent resource potential (1C) is estimated to be in a range of potential outcomes of 235-327 mboe/well.

The MR Olmos leases lie on the highly productive flank of the AWP field that has produced 48.9 mmbo and 490.5 bcf from the Olmos sandstone reservoir. Historically, the Olmos reservoir was developed with vertical wells, two of which have or are producing in the MR Olmos leases. Talon believes that through the use of modern day horizontal drilling and hydraulic fracturing the productive capacity can be greatly enhanced and the leases more efficiently developed.

The MR Olmos project is located approximately 18 miles away from the highly successful STS Olmos Project where 8 successful wells have been drilled and 160 gross additional drilling locations have been identified.

Operational activities

In February 2014, Talon formed a new joint participation group with Terrace STS LLC ("Terrace") (33.34%), Aschere Energy LLC ("Aschere") (16.66%) and Eagle Ford Shale Exploration, LLC (40.00%) to jointly develop a small 199-acre Quintanilla lease and participate in the proof of concept (Quintanilla OL 1H) horizontal Olmos well. This initiative is in line with Talon's strategy to minimise the cost of the initial test well (10% WI) of a project while maintaining a material position in the surrounding leasehold (100% WI, subject to options).

Subsequent to the end of 1H14 drilling of the first Olmos horizontal well commenced. The well was drilled to a total measured depth of 13,555MD feet (9,158 feet TVD) on 21 August 2014 after being spudded in early August 2014. Fraccing operations in the 4,286 foot lateral section of the well are scheduled to commence in late September 2014. Talon will employ a toe sleeve that can be opened by pump pressure versus mobilising coiled tubing to manually convey perforating guns for the initial perforating of Stage 1. This method will result in a cost saving in the completion phase. Initial planning is for 12 frac stages.

The Company will look to leverage any success at the test well program, which would have a potentially positive impact on shareholder value. Terrace and Aschere hold an option over the remaining 50% Olmos leased acreage and production from existing wells.

Talon is looking to expand its MR Olmos position to increase the number of wells. A letter of intent has been negotiated with an offset operator to evaluate the commercial outcome of joining acreage to increase the number of potential horizontal wells and to place them in a more favourable position relative to the orientation of the well bore and the resulting optimal direction of the frac plane.

Refer to section 5 below regarding production from Olmos vertical wells.

(c) Angourie (Yegua) Prospect***About Angourie (Yegua) Prospect***

The Angourie (Yegua) play is located in the Jackson County, South Texas and is prospective for gas condensate with approximately 237 acres leased of which Talon has a 10% WI. Based on analog performance, the estimated contingent resource potential (1C) is 229 mboe/vertical well.

Operational activities

The Scherer #2 well spud on 8 May 2014 reaching a TD of 6,694 feet on 21 May 2014. The well logged sixteen feet of hydrocarbon bearing sandstone and was completed into an existing pipeline in seven weeks. The preliminary initial well test was 800 mcf/gpd and 8 bcpd on an 8/64 inch choke with a flowing tubing pressure of 2,050 psi.

(d) Roundhouse Prospect - Rodessa***About Roundhouse Prospect - Rodessa***

O'Benco, as operator of 600 acres within the Company's Roundhouse Prospect, recently completed drilling of a vertical well (Brice Bonner #1) to test the Woodbine and Rodessa formations – shallower oil formations to the Cotton Valley Lime tested by the Bonner 1H well. With minor production in the area from these formations, Talon decided to obtain the maximum information from the well that could impact the Company's overall 7,000 acre position in this area while limiting the capital exposure and retaining a 1% WI in the Brice Bonner #1 well.

Operational activities

The Brice Bonner #1 well spud on 17 April 2014, and was drilled to TD of 6,255 feet. The well started producing oil on 1 June 2014 and is averaging 30 bopd (gross). The Company will continue to monitor the production performance of the well, which will determine whether future drilling is undertaken on the Company's 97% owned block.

(e) Sunshine Prospect***About Sunshine Prospect***

The Sunshine Prospect is located in the DeWitt County, South Texas and is prospective for gas condensate. Based on analog performance the estimated contingent resource potential (1C) is 192 mboe/vertical well. Talon has a 10% WI after payout of the first well and a 10% WI in any new well on the prospect.

Operational activities

The Devine #1 well tested a Wilcox "Roeder" sand at 1 mmcf/gd and 25 bopd during flow-back after a 300,000 pound frac performed on 26 March 2014. The Company has a BIAPD and right to participate in an offset well at a 10% WI. The operator is currently securing a right of way for the pipe line tie-in.

Additional leasing is being finalised by the operator who plans to drill additional wells after the Devine #1 has been put on line. Talon has the option to participate at 10% WI in the new leasing and future wells.

(f) Roundhouse Prospect – Cotton Valley Lime***About Roundhouse Prospect***

The Roundhouse Prospect is located in Navarro County, Northeast Texas adjacent to the large producing Cheneyboro field. Talon has over 6,860 net acres and during 2013 entered into a joint agreement with O'Brien Energy Company (O'Benco), to complete a proof of concept well, the Bonner 1H. Talon has approximately a 24% WI in the well and surrounding 600 acres of Cotton Valley Lime formation leveraging at modest cost its position in this oil rich play and still retaining all its interest in adjacent leasehold.

The Bonner 1H well was drilled in mid-2013. In late July 2013, during initial fracing operations the casing ruptured resulting in delays to the program. After several months spent to repair the ruptured casing, the fracing operations were completed in November 2013, and the well was placed on jet pump. The well started producing oil on 7 December 2013.

Diagram 2 – Bonner 1H well facilities



Operational activities

The Company has received a total of US\$786,898.17 (95.6% of possible recovery) for its insurance claim following the Bonner 1H casing failure incident in July 2013. This is compensation for the costs of repair and surface damages. The final instalment of the claim payment of US\$102,774 was received in April 2014. Refer to section 5 below regarding production from Bonner 1H. In an attempt to restore the high fluid recovery rates seen earlier in the production life of the Bonner 1H, the operator of the Bonner 1H has generated an AFE to clean out the lateral of any potential debris and lower the jet pump. Talon has approved the AFE for its share of the cost (\$20,000 net). O'Benco has scheduled the workover to commence the week of 8 September 2014.

(g) East Texas (Rodessa) Prospects

About East Texas (Rodessa) Prospects

The East Texas Rodessa Oil play located in Henderson, Anderson and Smith counties includes the Catfish Creek, Redfish and East Banks prospects, which each cover an area of approximately 5,000 acres.

Talon currently has approximately 2,600 net acres under lease and is continuing to pursue leasehold opportunities with a target position of up to 5,000 acres. These projects are in an infrastructure-rich environment in and around older producing fields. The target objective in these areas meets the criteria for tight oil or liquids rich reservoirs, thus making it a prime target for fracing in vertical and horizontal wells. Based on analog performance for a vertical well, the estimated contingent resource potential (1C) is 142 mboe/vertical well.

Operational activities

There have been no exploration activities during 1H14 on the East Texas (Rodessa) Prospects.

Talon is currently marketing the East Banks prospect where it holds approximately 950 acres. A test well is planned for the 2015 calendar year. The Company may sell down some of its interest to leverage its position on the initial drilling in this play, which is consistent with Talon's strategy employed on other projects.

(h) Dunsborough Prospect

About Dunsborough Prospect

The Dunsborough Prospect is located in the Jackson County, South Texas and is prospective for gas condensate with approximately 300 gross acres leased by prospect generator of which Talon is entitled to 15% WI. Based on analog performance the estimated contingent resource potential (1C) is 543 mboe/vertical well.

Operational activities

Additional leasing is underway by co-participants in the prospect.

(i) Coolangatta Prospect**About Coolangatta Prospect**

The Coolangatta Prospect is located in the Colorado County, South Texas and is prospective for gas condensate with approximately 222 acres leased by Talon with a 25% WI. Based on analog performance the estimated contingent resource potential (1C) is 524 mboe/vertical well.

Operational activities

Additional leasing is underway by co-participants in the prospect. Talon is considering a potential sell down to reduce the Company's WI to 12.5% in order to reduce the capital requirements for this project.

5. PRODUCTION

Production for the six month period was:

Table 2 – Talon's production for 1H14

	Six months ended 30 Jun 2014	Six months ended 30 Jun 2013
Gross:		
Gas (mcf)	5,532	0
Oil (bbl)	10,822	4,332
Total (boe) ⁽²⁾	11,714	4,332
Nett (Talon share):⁽¹⁾		
Gas (mcf)	913	0
Oil (bbl)	2,746	3,087
Total (mboe) ⁽²⁾	2,899	3,087

(1) Talon's beneficial NRI share.

(2) Gas is converted to boe on the basis that 6 mcf of gas are equivalent to 1 boe.

Net production (boe) decreased by 6% compared with the half year to 30 June 2013. The decrease is attributed to natural decline in the wells.

At 30 June 2014 the Company had two operated vertical wells located at its MR Olmos project in South Texas, as well as the non-operated Bonner 1H CVL horizontal and the Brice Bonner #1 Rodessa wells located at its Roundhouse Prospect in East Texas.

Production from the Wheeler #1 Olmos vertical well is slowly declining and the well has been producing 7.7 bopd gross (5.5 bopd net). The other Olmos producer, the Hoskins Unit #1 vertical well, went off production in January 2014 as a result of a hole in the tubing.

The non-operated Bonner 1H horizontal well continues to flow back frac load water and had produced 109% of the load water as at 29 July 2014. The well has averaged 42.5 bopd (7.4 bopd net) per producing day in 1H14. It also produced a combination of formation water and load water. The well went off production on 4 August 2014 with a downhole jet pump issue. O'Benco has submitted an AFE to pull the tubing, clean out the lateral and wash out any fill over the jet pump to increase the drawdown and return the well to production. The workover is expected to commence the week of 8 September 2014.

6. RESERVES AND RESOURCES

As at 30 June 2014, the proved + probable + possible (3P) reserves attributable to Talon's NRI were 2,735 mboe. This is a 31% increase over the 2,093 mboe 3P reserves at mid-year 2013. The overall change in net reserves is due to the additions of the Cheneyboro-Rodessa and Sneezy (Scherer #2) fields.

Table 3 and Diagram 3 below present a comparison of Talon's oil and gas reserves for mid-year 2013 and mid-year 2014.

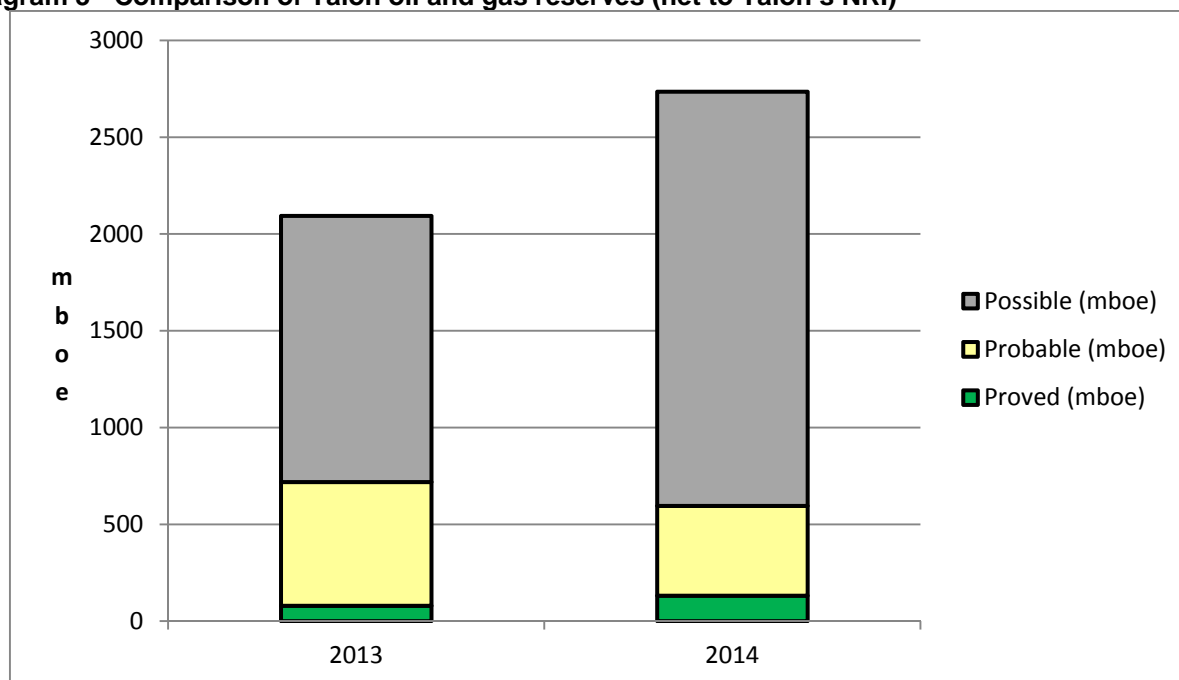
The mid-year 2014 reserves were assessed by Netherland, Sewell & Associates, Inc. (“NSAI”) which meets the requirements of qualified petroleum reserves and resources evaluators (refer to page 27 of this Report for the qualified evaluator statement).

Table 3 - Comparison of Talon oil and gas reserves (net to Talon’s NRI)

	Mid-year 2014 net reserves*	Mid-year 2013 net reserves*	Difference in net reserves
Proved:			
Oil (mbbl)	119	79	40
Natural gas liquids	0	0	-
Gas (mmcf)	69	0	69
Total Proved (1P) (mboe)**	131	79	52
Probable:			
Oil (mbbl)	347	503	(156)
Natural gas liquids	34	60	(26)
Gas (mmcf)	500	456	44
Total probable (mboe)	464	639	(175)
Total proved and probable (2P) (mboe)**	595	718	(123)
Possible:			
Oil (mbbl)	1,017	500	517
Natural gas liquids	446	386	60
Gas (mmcf)	4,061	2,933	1,128
Total possible (mboe)	2,140	1,375	765
Totals:			
Oil (mbbl)	1,483	1,083	400
Natural gas liquids	481	446	35
Gas (mmcf)	4,629	3,389	1,240
Total proved, probable and possible (3P) (mboe)**	2,735	2,093	642

* Mid-year 2014 net reserves are reported as at 30 June 2014 and mid-year 2013 net reserves are reported as at 1 August 2013.

** 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.

Diagram 3 - Comparison of Talon oil and gas reserves (net to Talon's NRI)

Note: Mid-year 2014 net reserves are reported as at 30 June 2014 and mid-year 2013 net reserves are reported as at 1 August 2013.

7. CORPORATE REVIEW

(a) SEA Claim Notice

Talon previously reported that on 7 September 2013 it received a notice from Sundance Energy Australia Limited ("SEA") asserting claims under the Scheme Implementation Agreement ("SIA") dated 13 November 2012 between SEA and the Company's previous parent entity Texon and the Demerger Deed between the Company and Texon dated 14 January 2013. During 1H14 Talon reached an agreement to settle SEA's claims. As part of the settlement, US\$300,000 of the approximately A\$1.48 million held in escrow in respect of liabilities under the SIA has been released to SEA, with the balance of approximately A\$1.158 million released to Talon. Talon has also agreed to assign to SEA its interest in the Austin Chalk and co-operate with SEA in the reallocation of certain pre-demerger costs to entities now controlled by SEA. The Board determined that in order to avoid a prolonged and distracting legal dispute, it was in the interests of Talon shareholders to settle the claims.

(b) Issue of Shares to Wandoo

During 1H14 the Company issued the remaining 480,000 Shares to Wandoo as final consideration for the acquisition by Texoz E&P II, Inc. ("Texoz"), a subsidiary of the Company's previous parent entity Texon, of the WI from Wandoo in its Eagle Ford Shale assets in Texas USA under an agreement between Texoz and Wandoo dated 18 October 2012 as part of the Demerger Scheme and Acquisition Scheme approved by shareholders on 25 February 2013 and implemented on 7 and 8 March 2013, respectively.

(c) AGM and EGM

The Company's second AGM was held on 30 May 2014 with all resolutions being passed.

The Company's EGM will be held at Minter Ellison Lawyers, Level 22, Waterfront Place, 1 Eagle Street, Brisbane, Queensland at 11.00 am (Brisbane time) on Friday, 26 September 2014. Further details are set out in the Notice of EGM released to ASX and despatched to shareholders on 25 August 2014.

(d) Retirement of Non-Executive Director

Non-Executive Director Mr David Mason retired from the Board effective 25 June 2014. Mr Mason will continue his involvement with Talon through the PGA with Wandoo, of which David is the founder and

majority shareholder. In addition, David will continue to provide technical advice to the Board through his involvement with Wandoo.

(e) Corporate Cost Reduction Strategy

The Company over recent times has been actively pursuing cost reduction initiatives. The Board costs have been reduced by 20% following the recent retirement of Mr David Mason. In addition, the remaining Non-Executive Directors have agreed to take 50% of their remuneration in Shares in lieu of cash payments. The Managing Director, President and CEO, Mr Cliff Foss has also agreed to take 33% of his remuneration in Shares. Both of these actions will require shareholder approval at the EGM scheduled to be held on 26 September 2014 (see (c) above). The Company is looking at a number of other corporate cost saving measures to reduce its non-operating costs.

(f) Entitlement Offer raised A\$1.12 million

Subsequent to the end of 1H14, the Company undertook a fully-underwritten 1-for-1 pro rata non-renounceable entitlement offer to raise approximately A\$1.12 million (before offer costs) at \$0.011 per Share to assist with funding its immediate forward work program ("Entitlement Offer"). The Entitlement Offer was oversubscribed and successfully completed, resulting in the allotment of 102,615,433 Shares on 25 August 2014. Total issued Shares are now 205,230,866 and the outstanding unlisted options remain unchanged at 5,450,000.

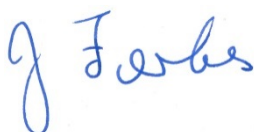
8. DIVIDENDS

No dividends have been declared, provided or paid in respect of the period.

9. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's independence declaration under section 307C of the Corporations Act is set out on page 11 and forms part of the Directors' Report for the six months ended 30 June 2014.

Signed in accordance with a resolution of the Directors.



Jeffrey Forbes
Chairman
Brisbane
11 September 2014



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 review for the interim period ended 30 June 2014 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Stephen Board
Partner

Brisbane
11 September 2014

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

	Note	Six months ended 30 Jun 2014 \$	Six months ended 30 Jun 2013 \$
Revenue		288,244	303,119
Cost of oil and gas sold		(217,740)	(222,395)
Gross profit		70,504	80,724
Other income		8,327	282,065
Employee benefits		(355,856)	(320,770)
Administrative and other expenses		(588,888)	(647,960)
Exploration and evaluation expenditure		(47,075)	(3,634,157)
Impairment expense	5	(2,960,659)	(2,228,708)
Results from operating activities		(3,873,647)	(6,468,806)
Finance income		2,906	7,055
Loss before income tax		(3,870,741)	(6,461,751)
Income tax expense		-	-
Profit / (loss) for the period		(3,870,741)	(6,461,751)
Other comprehensive income			
Foreign exchange translation differences, net of tax		(520,008)	1,427,188
Total comprehensive income / (loss) attributable to members of the Company		(4,390,749)	(5,034,563)
		Cents	Cents
Basic earnings/(loss) per share		(3.5)	(6.3)
Diluted earnings/(loss) per share		(3.5)	(6.3)

The condensed notes on pages 16 to 22 are an integral part of these consolidated interim financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014**

	Note	30 Jun 2014 \$	31 Dec 2013 \$
Current assets			
Cash and cash equivalents		1,690,067	2,707,655
Short term financial assets	6	6,109	1,148,913
Trade and other receivables		141,872	434,403
Prepayments		63,179	96,077
Total current assets		1,901,227	4,387,048
Non-current assets			
Security deposits		53,057	56,058
Property, plant and equipment		10,914	25,210
Oil and gas properties	7	1,654,264	1,708,748
Exploration and evaluation assets	8	6,057,341	8,550,320
Total non-current assets		7,775,576	10,340,336
TOTAL ASSETS		9,676,803	14,727,384
Current liabilities			
Trade and other payables	9	(337,019)	(1,043,457)
Provisions		(86,967)	(53,950)
Total current liabilities		(423,986)	(1,097,407)
Non-current liabilities			
Provisions		(409,604)	(421,553)
Total non-current liabilities		(409,604)	(421,553)
TOTAL LIABILITIES		(833,590)	(1,518,960)
NET ASSETS		8,843,213	13,208,424
Equity			
Issued capital	10	32,314,548	32,314,548
Reserves		1,989,835	2,484,305
Retained earnings		(25,461,170)	(21,590,429)
TOTAL EQUITY		8,843,213	13,208,424

The condensed notes on pages 16 to 22 are an integral part of these consolidated interim financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

Six months ended 30 June 2014	Share capital	Share options reserve	Restructure reserve	Foreign currency translation reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$	\$
Balance at 1 January 2014	32,314,548	73,110	-	2,411,195	(21,590,429)	13,208,424
Total comprehensive income for the period						
Profit / (loss) for the period	-	-	-	-	(3,870,741)	(3,870,741)
Other comprehensive income						
Foreign exchange translation differences	-	-	-	(520,008)	-	(520,008)
Total comprehensive income for the period	-	-	-	(520,008)	(3,870,741)	(4,390,749)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued	-	-	-	-	-	-
Share payment reserve	-	25,538	-	-	-	25,538
Balance at 30 June 2014	32,314,548	98,648	-	1,891,187	(25,461,170)	8,843,213
Six months ended 30 June 2013						
Balance at 1 January 2013	25,221,495	-	(8,743,853)	146,961	(1,322,434)	15,302,169
Total comprehensive income for the period						
Profit / (loss) for the period	-	-	-	-	(6,461,751)	(6,461,751)
Other comprehensive income						
Foreign exchange translation differences	-	-	-	1,427,188	-	1,427,188
Total comprehensive income for the period	-	-	-	1,427,188	(6,461,751)	(5,034,563)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued	7,090,630	-	-	-	-	7,090,630
Share payment reserve	-	35,588	-	-	-	35,588
Balance at 30 June 2013	32,312,125	35,588	(8,743,853)	1,574,149	(7,784,185)	17,393,824

Amounts are stated net of tax.

The condensed notes on pages 16 to 22 are an integral part of these consolidated interim financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

	Six months ended 30 Jun 2014 \$	Six months ended 30 Jun 2013 \$
Cash flows from operating activities		
Cash receipts from customers	320,102	374,326
Cash paid to suppliers and employees	(845,347)	(1,599,208)
Interest received	2,905	7,055
Income taxes paid	-	-
Net cash from operating activities	(522,340)	(1,217,827)
Cash flows from investing activities		
Exploration, evaluation and development assets	(1,570,608)	(2,205,208)
Investments in short term financial assets	-	(1,475,044)
Proceeds from short term financial assets	1,158,046	-
Proceeds from sale of oil and gas properties	-	102,169
Proceeds from sale of property, plant and equipment	4,370	-
Net cash from investing activities	(408,192)	(3,578,083)
Cash flows from financing activities		
Proceeds from loan	-	7,090,630
Net cash from financing activities	-	7,090,630
Net increase/(decrease) in cash and cash equivalents	(930,532)	2,294,720
Cash and cash equivalents at 1 January	2,707,655	2,526,130
Effect of exchange rate fluctuations on cash and cash equivalents	(87,056)	173,172
Cash and cash equivalents at 30 June	1,690,067	4,994,022

The condensed notes on pages 16 to 22 are an integral part of these consolidated interim financial statements.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Note
1 Reporting entity
2 Statement of compliance
3 Going concern
4 Significant accounting policies
5 Impairment Expense
6 Short term financial assets
7 Oil and gas properties
8 Exploration and evaluation assets
9 Trade and other payables
10 Share capital
11 Deferred tax assets and liabilities
12 Capital and other commitments
13 Contingencies
14 Related parties
15 Subsequent events

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. REPORTING ENTITY

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 six months ended 30 June 2014 comprises the Company and its subsidiaries (together referred to as the “Group”).

The consolidated annual financial report of the Group as at and for the period ended 31 December 2013 is available upon request from the Company’s registered office at Level 16, 344 Queen Street, Brisbane QLD 4000 or at <http://www.talonpetroleum.com.au/>.

2. 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 period ended 31 December 2013.

This consolidated interim financial report was approved by the Board of Directors on 11 September 2014.

3. GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to realise its assets and extinguish its liabilities in the ordinary course of business. The Group has incurred a loss of \$3,870,741 in the half year ended 30 June 2014 and has accumulated losses of \$25,461,170 as at 30 June 2014. The Group has cash on hand of \$1,690,067 at 30 June 2014 and used \$522,340 of cash in operations and \$1,570,608 for exploration, evaluation and development for the half year ended 30 June 2014. These conditions give rise to a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern.

The ongoing operation of the Group is dependent upon:

- the Group successfully completing producing wells to generate cash inflows; and/or
- the Group selling producing assets to generate cash inflows; and/or
- the Group raising additional funding from shareholders or other parties; and
- the Group reducing expenditure in-line with available funding.

As set out in Note 6, at 31 December 2013 the Group had funds of \$1,479,140 held in an escrow accounts which were subject to legal dispute. During the interim period the Group entered into a Deed of Settlement and Release which resulted in funds of \$1,158,046 becoming available to the Group.

Management has prepared cash flow projections that support the ability of the Group to continue as a going concern. These cash flow projections assume commencement of commercial production from certain existing wells in the near future, the receipt of capital funding pursuant to the Entitlement Offer, the successful completion of an additional producing well, and the subsequent sale of interests in respect of that well to provide required cash funding.

In the event that the Group does not obtain additional funding, and/or dispose of existing assets, and reduce expenditure in-line with available funding, it may not be able to continue its operations as a going concern and therefore may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the consolidated financial statements. Subsequent to 30 June 2014 the Company raised \$1,128,770 through the Entitlement Offer.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the period ended 31 December 2013.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****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.

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 period ended 31 December 2013.

Segment reporting

The Group determines operating segments based on the information that internally is provided to the CEO, who is 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 \$7,773,808 and Australia \$1,768 (31 December 2013: USA \$10,337,237 and Australia \$3,102).

Seasonality and cyclicity

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

5. IMPAIRMENT EXPENSE

	Six months ended 30 Jun 14 \$	Six months ended 30 Jun 13 \$
Impairment expense	(2,960,659)	(2,228,708)

At 30 June 2014 the Group evaluated the carrying values of its oil and gas properties and found that the carrying value of certain assets was higher than the assessed recoverable amount. The Group impaired the assets accordingly:

Oil and gas properties, net of depreciation \$96,353 (2013: \$2,228,708) (See Note 7).
Exploration and evaluation assets \$2,864,306 (2013: nil) (See Note 8).

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)**6. SHORT TERM FINANCIAL ASSETS**

As at 31 December 2013 the Group had \$1,479,140 of funds on deposit for the escrow account pursuant to the terms of the Scheme Implementation Agreement (SIA) dated 13 November 2012 between Sundance Energy Australia Limited (SEA) and Talon's previous parent entity Texon Petroleum Limited and minimal other short term financial assets on deposit. During the interim period an agreement between Talon and SEA was reached to settle the claims. As part of the settlement, US\$300,000 of the funds held in escrow in respect of liabilities under the SIA was released to SEA, with the balance of A\$1,158,046 released to Talon.

7. OIL AND GAS PROPERTIES

	Six Months ended 30 Jun 14 \$	Twelve months ended 31 Dec 13 \$
Oil and gas properties		
Cost		
Balance at beginning of period	2,488,244	7,329,593
Acquisitions	-	-
Additions / (disposals)	-	(42,358)
Transferred from exploration and evaluation expenditure	229,489	-
Impairment expense	(96,353)	(5,600,346)
Foreign exchange translation	(207,502)	801,355
Balance at end of period	2,413,878	2,488,244
Accumulated depletion and impairment		
Balance at 1 January	779,496	375,928
Depletion expense	101,847	235,981
Foreign exchange translation	(121,729)	167,587
Balance at end of period	759,614	779,496
Carrying amounts		
At 1 January	1,708,748	6,953,665
At end of period	1,654,264	1,708,748

During the period the Group transferred the Bonner 1H from exploration and evaluation assets to oil and gas properties following an impairment test. Additionally, at 30 June 2014 the Group also evaluated the carrying values of oil and gas properties in comparison to their estimated recoverable amounts as based on reserves valuations prepared by independent third party reserve engineers. It was identified that the Hoskins #1 well required impairment of \$96,353.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)**8. EXPLORATION AND EVALUATION ASSETS**

	Six months ended 30 Jun 14 \$	Twelve months ended 31 Dec 13 \$
Balance at 1 January	8,550,320	6,499,769
Acquisitions	271,654	2,787,683
Additions	733,538	1,677,916
Transferred to oil and gas properties	(229,489)	-
Expenditure written-off	-	(3,550,116)
Impairment	(2,864,306)	-
Foreign exchange translation	(404,376)	1,135,068
Balance at end of period	6,057,341	8,550,320

During the period the Group determined that the Bonner 1H well was technically feasible and commercially viable and should be transferred to oil and gas properties. Prior to the transfer, impairment testing was performed by comparing the carrying value of the well to its estimated recoverable amount as based on reserves valuation prepared by an independent third party reserve engineer.

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest. As at 30 June 2014 the Group's assessment concluded that no other impairments to exploration and evaluation expenditure were necessary.

9. TRADE AND OTHER PAYABLES

	30 Jun 14 \$	31 Dec 13 \$
Trade and other payables	337,019	1,043,457

As at 31 December 2013 Trade and other payables included \$906,580 owed by the Group for its share of expenses related to the Bonner 1H well. These expenses were paid during the interim period.

10. SHARE CAPITAL

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

	Six months ended 30 Jun 14 Ordinary shares (number)	Twelve months ended 31 Dec 13 Ordinary shares (number)
On issue at 1 January	102,135,433	84,039,316
Issue of ordinary shares 25 February 2013	-	10,000,000
Issue of ordinary shares 7 March 2013	-	4,096,117
Issue of ordinary shares 6 May 2013	-	4,000,000
Issue of ordinary shares 4 April 2014	480,000	-
On issue at end of period – fully paid	102,615,433	102,135,433

Issuance of ordinary shares

On 4 April 2014 the Company issued the remaining 480,000 Shares to Wandoo as final consideration for the acquisition by Texoz, of the WI from Wandoo in its Eagle Ford Shale assets in Texas USA as previously disclosed in the consolidated financial report of the Group as at and for the period ended 31 December 2013. As the shares did not directly benefit Talon other than to facilitate the transaction between Texoz and Wandoo, the effect was a re-distribution of ownership with no consequence as to valuation included in the financial statements of Talon.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)**10. SHARE CAPITAL (continued)**

Total issued Shares as at 30 June 2014 are 102,615,433 and the outstanding unlisted options remain unchanged at 5,450,000. Refer to Note 15 for information with respect to the issue of Shares subsequent to 30 June 2014.

All issued shares are fully paid.

11. DEFERRED TAX ASSETS AND LIABILITIES

During the interim period the Group executed a settlement deed with Sundance Energy Australia Limited in which the Group has agreed to review expense allocations among Texoz E & P I, Texoz E & P III and the entity sold to Sundance, Texoz E & P II, for past tax years. The Group does not anticipate any financial impact to the Company, although certain unrecognised deferred tax assets may be forfeited. The quantum cannot be determined at this date.

There have been no changes in recognised deferred tax assets or liabilities during the six months ended 30 June 2014.

12. CAPITAL AND OTHER COMMITMENTS

Information with respect to continuing commitments is set out in the consolidated financial report of the Group as at and for the period ended 31 December 2013. There have been no significant changes during the six months ended 30 June 2014.

13. CONTINGENCIES**Litigation*****SEA Claim Notice***

On 7 September 2013 a notice was received from Sundance Energy Australia Limited ("SEA") asserting claims under the Scheme Implementation Agreement ("SIA") dated 13 November 2012 between SEA and the Company's previous parent entity Texon and the Demerger Deed between the Company and Texon dated 14 January 2013.

On 25 March 2014 Talon and SEA reached an agreement to settle the claims. As part of the settlement, US\$300,000 of the approximately \$1.48 million held in escrow in respect of liabilities under the SIA has been released to SEA, with the balance of approximately A\$1.158 million released to Talon. Talon also agreed to assign to SEA its interest in the Austin Chalk for which no capitalized costs were carried on the balance sheet as at 31 December 2013 and to co-operate with SEA in the reallocation of certain pre-demerger costs to entities now controlled by SEA (See Note 11).

14. RELATED PARTIES

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the consolidated financial report of the Group as at and for the period ended 31 December 2013. Significant transactions with related parties during the period are set out below.

Wandoo, a company controlled by Mr D Mason, a former Non-Executive Director of the Group (retired 25 June 2014), provided the Group with services during the period under a prospect generation agreement. Payments to Wandoo under the Deed of Variation V, dated 28 August 2013, are \$26,875 per month with a termination date of 31 December 2015. During the current period \$134,375 was paid by the Group and its related parties to Wandoo for these services.

During the six months ended 30 June 2014 the Company paid \$22,555 to Minter Ellison for legal services performed. Mr Bruce Cowley, a Non-Executive Director of Talon, is a partner at Minter Ellison in Brisbane.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)**15. SUBSEQUENT EVENTS**

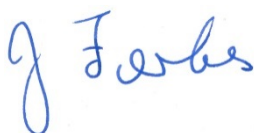
- 1) Subsequent to 30 June 2014, drilling of the first Olmos horizontal well, Quintanilla OL1H well, commenced. The well was drilled to a total measured depth of 13,555 MD feet (9,158 feet TVD) on 21 August 2014 after being spudded in early August 2014. Fracing operations in the 4,286 foot lateral section of the well are scheduled to commence in late September 2014. To date the Company has paid \$352,750 (US\$329,685 of estimated total US\$660,000) for its 10% WI towards dry hole and completion costs.
- 2) Subsequent to 30 June 2014, the Company undertook a fully-underwritten 1-for-1 pro rata non-renounceable entitlement offer to raise approximately A\$1.12 million (before offer costs) at \$0.011 per Share to assist with funding its immediate forward work program ("Entitlement Offer"). The Entitlement Offer was oversubscribed and successfully completed, resulting in the allotment of 102,615,433 Shares on 25 August 2014. Total issued Shares are now 205,230,866 and the outstanding unlisted options remain unchanged at 5,450,000. All per Share amounts have been adjusted retrospectively for comparison purposes.

DIRECTORS' DECLARATION

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

- (a) the financial statements and notes set out on pages 12 to 22 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 30 June 2014 and of its performance for the six month period ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth); and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Jeffrey Forbes
Chairman
Brisbane
11 September 2014



Independent auditor's review report to the members of Talon Petroleum Limited

We have reviewed the accompanying interim financial report of Talon Petroleum Limited, which comprises the consolidated statement of financial position as at 30 June 2014, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the interim period's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim 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 interim 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 interim 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 interim 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 2014 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Talon Petroleum Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim 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*.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Talon Petroleum Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty regarding continuation as a going concern

Without modifying our conclusion, we draw attention to note 3 'Going concern' in the interim financial report. The conditions disclosed in note 3 indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the ordinary course of business and at the amounts stated in the interim financial report.

KPMG

Stephen Board
Partner

Brisbane
11 September 2014

GLOSSARY

1H13	six months ended 30 June 2013
1H14	six months ended 30 June 2014
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
Acquisition Scheme	the acquisition of Texon by SEA by way of a scheme of arrangement implemented on 8 March 2013 as further described in the Acquisition Scheme Booklet released on 22 January 2013
AFE	Authorization for Expenditure
AGM	Annual General Meeting
Aschere	Aschere Energy LLC, a US-based oil & gas exploration and production company
ASX	ASX Limited (ACN 008 624 691) or, if the context requires, the securities market operated by it
bbl	barrels
bcf	billion cubic feet
bcpd	barrels of condensate per day
BIAPO	back-in after payout
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
CEO	Chief Executive Officer
Company or Talon Corporations Act	Talon Petroleum Limited (ABN 88 153 229 086) <i>Corporations Act 2001</i> (Cth)
Demerger Scheme	the Company's demerger from its previous parent entity Texon by way of a scheme of arrangement that was implemented on 7 March 2013 and subsequent listing on the ASX as further described in the Demerger Scheme Booklet released on 22 January 2013
Director	director of the Company
EGM	Extraordinary General Meeting
Entitlement Offer	the fully-underwritten 1-for-1 pro rata non-renounceable entitlement offer to raise approximately A\$1.12 million (before offer costs) at \$0.011 per Share
ft	feet
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)
mcf	thousand cubic feet
mcf(p)d	thousand cubic feet per day
mcf(g)p)d	thousand cubic feet of gas per day
MD	Measured Depth
mmbo	million barrels of oil
mmcf	million cubic feet
mmcf(p)d	million cubic feet per day
mmcf(g)p)d	million cubic feet of gas per day
NSAI	Netherland, Sewell & Associates, Inc.
NRI	net revenue interest or share of production after all burdens such as royalties have been deducted from the WI
O'Benco	operational arm of O'Brien
O'Brien	O'Brien Energy Company, a private oil and gas exploration and production company located in Shreveport, Louisiana, USA
PGA	Prospect Generation Agreement dated on or about 23 June 2006 between Texoz E&P III, Inc., Wandoo and John Dennis Armstrong (Talon's previous Chairman)
psi	pounds per square inch
SEA	Sundance Energy Australia Limited (ABN 76 112 202 883)
SIA	Scheme Implementation Agreement dated 13 November 2012 between SEA and

	Texon
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
Terrace	Terrace STS LLC, a Canadian based oil & gas exploration and production company
Texon	Texon Petroleum Ltd (ABN 24 119 737 772)
Texoz	Texoz E&P II, Inc.
TD	Total Depth
TVD	True Vertical Depth
US\$	U.S. dollars, unless otherwise stated
Wandoo	Wandoo Energy, LLC, a USA based company associated with Mr David Mason, a previous Director of Talon, who is the majority shareholder in Wandoo
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 C. Ashley Smith. Mr Smith has been practicing consulting petroleum engineering at NSAI since 2006. Mr Smith is a Licensed Professional Engineer in the State of Texas (No. 100560) and has over 13 years of practical experience in petroleum engineering, with over 7 years' experience in the estimation and evaluation of reserves. He graduated from University of Missouri-Rolla (Missouri University of Science & Technology) in 2000 with a Bachelor of Science Degree in Petroleum Engineering. Mr Smith 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 Smith 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 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 Smith. Mr Smith 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

Jeff Forbes (Chairman)

Clifford S. Foss, Jr. (CEO, Managing Director and President)

Angus Douglas (Non-Executive Director)

Bruce Cowley (Non-Executive Director)

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Anastasia Maynes

Financial Controller

Catherine Thompson

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Auditor

KPMG

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