



**TALON PETROLEUM LIMITED**

**ANNUAL REPORT 2014**

**ABN 88 153 229 086**

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### About this report

This report is a summary of Talon's operations, activities and financial position as at 31 December 2014. It complies with Australian reporting requirements. An electronic version of this report is available at [www.talonpetroleum.com.au](http://www.talonpetroleum.com.au). Printed reports are also available from Talon on request.

## CHAIRMAN'S REPORT

Dear Shareholder,

I am pleased to present the Annual Report of Talon Petroleum Limited for the year ended 31 December 2014.

Talon achieved important operational and corporate milestones over the course of the year against a backdrop of significant industry volatility. A process of board renewal was implemented and an aggressive cost cutting program continued into 2015. Wells drilled on the Company's MR Olmos project and Coolangatta project exceeded expectations. Despite lower commodity prices your company is positioned to realise maximum possible value for the Company's assets, either by sale or development.

The highlight of the past year for Talon was the excellent performance of the Quintanilla OL 1H well - the first horizontal well drilled on our Mossman Rockingham Olmos Project in McMullen County, Texas. The well spud in August 2014 and tested 986 boepd in October 2014. The well averaged 377 boepd over the first 90 days of production. Despite the success of the first horizontal well on this project, the low oil price environment and uncertain industry conditions caused two parties to elect not to exercise options to acquire 50% of Talon's working interest in 3,600 acres adjoining the Quintanilla lease. As a result, Talon now holds a 100% working interest in this very attractive project. A favourable ruling on AWP Field Rules in December 2014 has meant that there are now 40 drilling locations on this project.

Another very positive development occurred in the final days of 2014 with the logging of the first well on the Coolangatta prospect. The ELGU #1 well encountered 54 feet of gas condensate bearing reservoir. The well later performed strongly in flow testing. Procedures are being finalised to put this well into production in the coming months. Talon's working interest in this project is small but it will provide meaningful cash flow for the Company once it is online.

Cost reduction was a major focus over the year. Significant effort has been made to remove all but the most essential expenditures. Australian overheads were reduced to a minimal level and the Brisbane office of Talon was shut down. As announced 27 February 2015 further reductions were made on US costs which has brought annual overhead expenditure to under \$600,000.

2014 also saw a process of board renewal whereby David Mason, Jeff Forbes, Bruce Cowley and Angus Douglas stepped down and Peter Evans and I were appointed as Directors. Total non-executive director fees were reduced from \$250,000 (annualised) on the first day of 2014 to \$60,000 (annualised) on the last day.

During the year Talon successfully concluded negotiations with Sundance over a dispute and has negotiated an early termination of the Prospect Generation Agreement with Wandoo Energy. All of these actions have put Talon in a stronger position to survive difficult conditions and monetize assets while minimising dilution for shareholders.

**Peter Love**

Chairman

26 March 2015

## 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.

Additional information is available on Talon's website: [www.talonpetroleum.com.au](http://www.talonpetroleum.com.au)

## OPERATIONAL REVIEW

### 1 Highlights during 2014

Highlights during the year 2014 included:

- **Successful drilling and completion of Quintanilla OL 1H, the Company's first horizontal well in the MR Olmos project**
- **Discovery at the Coolangatta project via the ELGU #1 discovery well**
- **Completion of the Bonner 1H well and subsequent receipt of insurance claim**
- **Drilling of the Brice Bonner #1 well**
- **Drilling and completion of the Scherer #2 well on the Angourie prospect**
- **Drilling and completion of the Devine #1 well on the Sunshine prospect**

### 2 Review of operations

Talon's current portfolio reflects the strategy to invest in multi-well oil projects located in areas with good production infrastructure employing horizontal drilling and advanced fracing technologies and consists of three significant projects.

#### **Mosman Rockingham (MR) Olmos Project, McMullen County, Texas**

As advised in the Company's ASX announcement of 5 February 2014, Talon reached an agreement to jointly develop a small 199-acre Quintanilla lease and participate in the proof of concept (Quintanilla 1H) horizontal Olmos well with Terrace STS LLC (TSXV:TZR, OTCQX:TCRRF, FRANKFURT:2TR) ("Terrace"), Aschere Energy LLC ("Aschere") and Eagle Ford Shale Exploration, LLC ("EFSE") in exchange for a total payment to Talon of approximately US\$90,000. Talon's US subsidiary became the operator of the Quintanilla OL 1H well with a WI of 10%, and Terrace, Aschere and EFSE agreed to participate at 33.34%, 16.66% and 40% WI, respectively, for a combined anticipated well cost of approximately US\$7.3million. The well was planned for proposed total measured depth of 13,500 feet (8,985 feet TVD) with a lateral length of 4,128 feet.

Talon also agreed to grant each of Terrace and Aschere two options; one to buy into the remainder of the Olmos leased acreage (totalling some 3,616 acres), and the second to buy the production from the existing two producing wells (Hoskins Unit #1 and Wheeler #1) in their respective WI in exchange for a combined payment to Talon of approximately US\$2.05 million and funding of the proportionate share of the subsequent horizontal well costs. The options were able to be exercised within 90 days of completion of the Quintanilla 1H well.

During the 3Q14 drilling of the first Olmos horizontal well commenced. The well was drilled to a total measured depth of 13,555 feet (8,958 feet TVD) on 21 August 2014 and was drilled with a 4,286 foot lateral into the Olmos sandstone formation. An initial Production test of 986 boepd was achieved on 13 October 2014. The well was connected to well test equipment for flow back operations on 10 October 2014. Talon tested the well for approximately 76 hours on various choke sizes with a maximum reported rate of 744 bopd, 1,452 mcf/d (986 boepd), 1,800 bwpd on a 22/64 inch choke with a flowing casing pressure of 2,700 psi. This peak rate was achieved over a 2-hour period in response to adjusting the choke size. The 24 hour test prior to peak production was approximately 886 boepd.

The well produced approximately 34,000 boe in its first 90 days of production. Subsequent to the end of the financial year, the two parties holding options over 50% of Talon's offset acreage failed to exercise their options. A ruling from the A.W.P. (Olmos) Field Rules hearing held in September 2014 to amend well spacing was delivered in 4Q14 and increased the number of wells Talon can drill in this project thereby increasing overall production.

### **Roundhouse Prospect, Navarro County, East Texas**

The Roundhouse Prospect is located in Northeast Texas adjacent to the large Cheneyboro field. During 2013 Talon entered into a joint arrangement with a local US company and offset operator, O'Brien Energy Company, in a proof of concept well, the Bonner 1H. The Bonner 1H well was commenced in June 2013 and reached a total measured depth of 15,260 feet (9,472 feet TVD) on 3 July 2013. In late July 2013, casing failed during the early stages of fracing. A recovery and repair operation successfully re-established mechanical integrity of the well bore in September 2013 and a limited two-stage frac was successfully completed with technical analysis applied to the remaining 6 frac stages. A total of 13 frac stages were pumped in the Cotton Valley Lime. The Bonner 1H was placed on jet pump after a short flow back period on 13 November 2013. The well started making oil on 7 December 2013. As reported in the Company's ASX announcement of 29 January 2014, after recovering 47% of the frac fluid load in early January 2014, the operator, O'Benco, increased the surface pumping capacity to facilitate additional liquid recovery. Surface modifications were completed on 22 January 2014. The preliminary result was that recovery of the frac fluid was accelerated from 700 bwpd to 850 bwpd and oil recovery from 45 bopd to 70 bopd. As at 28 April 2014, the well had produced 6,137 bbls of oil (gross) and flowed back 94% of the frac load with both frac load water and daily oil recovery declining to 375 bwpd and 58 bopd (April daily average per producing day).

The Company filed a claim with its insurance carrier following the Bonner 1H incident for reimbursement of costs of repair and surface damages. In December 2013, partial restitution in the amount of US\$512,160 was received. Additional expenses were submitted by the operator to the adjuster for review. Another partial payment of the claim was received in April 2014 in the amount of US\$175,047 net to the Company. The final insurance claim payment of US\$99,691 for the Bonner 1H casing failure was received in 2Q14. The total amount received including the final payment is US\$786,898 which is approximately 95.6% of the recovery possible under Talon's insurance policy.

O'Benco, as operator of 600 acres within the Roundhouse Prospect, Navarro County, Texas, recently completed drilling 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. There is minor production in the area from these formations, and so to obtain the maximum information from the well which could impact the Company's acreage position in the area but limit the Company's capital exposure for what was thought to be a risky proposition, the Company retained a 1% WI in the well.

### **Coolangatta Prospect, Colorado County, Texas**

During 4Q14, Talon caused the Eagle Lake Gas Unit 1 well to be drilled to test the Coolangatta prospect at nil cost to Talon. Talon finalized an agreement with third parties whereby Talon received \$37,500, paid no cost in the well to casing point and then had an election to participate with a 6.25% WI in the well and prospect. Aurora Resources, as operator of the well, initiated drilling of the well in December 2014. Mud logs and wireline logs indicated the presence of 54 feet of gas condensate

bearing reservoir. The operator, Aurora Resources Corporation, cemented 4.5 inch diameter casing. At casing point in the well, Talon elected to participate with its 6.25% WI in the completion of the well.

### Angourie (Yegua) Prospect

The Scherer #2 well spud on 8 May 2014 and reached a total depth 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 2050 psi. The well was evaluated for compression in Q314 due to the reduced production rate of 200 mcf/d at 850 psi. The Scherer #2 well was placed on compression in December 2014 and production rates increased to 300 mcf/d at 100 psi versus a pre compressor rate of 200 mcf/d at 850 psi.

### Sunshine Prospect

The Devine #1 well tested a Wilcox “Roeder” sand at 1 mmcf/d and 25 bopd. The Company has a back-in after payout interest and right to participate in an offset well at a 10% WI. Subsequent to the reporting period, the Company has transferred its interest in this prospect to Wandoo Energy, LLC as partial consideration for the early termination of the prospect generation agreement.

## 3 Reserves and resources

In conjunction with this Annual Report, a reserve report was prepared as at the end of the year by an independent third party firm in accordance with the SPE-PRMS. Estimates of net reserves and future revenue are prepared for proved, probable and possible categories. The 31 December 2014 reserves were assessed by Netherland, Sewell & Associates, Inc. (“NSAI”) which meets the requirements of qualified petroleum reserves and resources evaluators (refer to page 81 of this Annual Report for the qualified evaluator statement).

Listed in Table 1 below are Talon’s net reserves as at 31 December 2014 for total proved (1P), proved + probable (2P), and proved + probable + possible (3P). The volumes are reported in the appropriate units for each phase as well as in mmboe.

Total 3P reserves attributable to Talon’s NRI were 1.75 mmboe. The reserves, which are all in conventional reservoirs, relate to the Company’s Mosman-Rockingham (MR) Olmos and Cheneyboro fields in the state of Texas.

**Table 1 - Talon oil and gas reserves (net to Talon’s NRI) as at 31 December 2014**

	<b>Oil (mmbbl)</b>	<b>NGL (mmbbl)</b>	<b>Gas (mmcf)</b>	<b>Total (mboe*)</b>
Proved Developed - Producing	14.4	0.8	27.7	19.8
Proved Developed – Non-producing	20.1	0.0	102.6	37.2
<b>Total Proved (1P)</b>	<b>34.5</b>	<b>0.8</b>	<b>130.3</b>	<b>57.0</b>
Probable	685.3	78.5	665.3	874.7
<b>Proved + Probable (2P)</b>	<b>719.8</b>	<b>79.3</b>	<b>795.6</b>	<b>931.7</b>
Possible	559.6	110.2	882.8	816.9
<b>Proved + Probable + Possible (3P)</b>	<b>1,279.4</b>	<b>189.5</b>	<b>1,678.4</b>	<b>1,748.6</b>

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

Table 2 presents a comparison of Talon's oil and gas reserves for the periods ending 31 December 2014 and 31 December 2013. The comparison indicates a 19.5% decrease in Talon's net 3P reserves as at 31 December 2014 over the 2.17 mmboe 3P reserves reported in the 31 December 2013 Annual Report.

The overall change in net reserves is due to a change in the development plan from vertical to horizontal wells based on the performance of the Quintanilla OL 1H in the MR Olmos field and an increase in gas reserves based on analog performance of the Eagle Lake Gas Unit #1, offset by declining prices and poor performance of the Cheneyboro field.

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

	<b>31 Dec 2014 net reserves</b>	<b>31 Dec 2013 net reserves</b>	<b>Difference in net reserves</b>
<b><i>Proved:</i></b>			
Oil (mbbl)	35	92	(57)
Natural gas liquids	1	0	1
Gas (mmcf)	130	0	130
Total proved (mboe)	58	92	(34)
<b><i>Probable:</i></b>			
Oil (mbbl)	685	525	160
Natural gas liquids	79	62	17
Gas (mmcf)	665	469	196
Total probable (mboe)	875	665	210
<b><i>Possible:</i></b>			
Oil (mbbl)	560	524	36
Natural gas liquids	110	393	(283)
Gas (mmcf)	883	2,988	(2,105)
Total possible (mboe)	817	1,415	(598)
<b><i>Totals:</i></b>			
Oil (mbbl)	1,280	1,141	139
Natural gas liquids	190	455	(265)
Gas (mmcf)	1,678	3,458	(1,780)
<b>Total proved, probable and possible (mboe) **</b>	<b>1,750</b>	<b>2,172</b>	<b>(422)</b>

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

#### 4. Corporate review

##### (a) Entitlement Offer

In the September 2014 quarter 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. Following the allotment, shares on issued total 205,230,866.

**(b) Board Restructure**

Effective 3 November 2014, non-executive directors Bruce Cowley, Angus Douglas and Jeff Forbes retired from the Board. As part of the Board restructure, non-executive director Mr Peter Love was appointed as Chairman and Mr Peter Evans joined the board as a non-executive director. Mr Evans has over 30 years' experience as a stockbroker with Paul E Morgan & Co and subsequent entities including Morgans Stockbroking, ABN Amro Morgans and RBS Morgans. He was Director – Sales at the Morgans entities from 1984 until 2013 and remained a Director until his retirement in 2013. He is currently Chairman of Sleepy's Pty Ltd, QEnergy Limited and Right at Home Australia. Mr Evans is serving and has served on a number of other boards over the years. He holds a Bachelor of Commerce and Diploma of Advanced Accounting from the University of Queensland.

**(c) New Company Secretary**

In accordance with the board restructure, Ms Maynes retired as Company Secretary effective 2 December 2014 with Mr Andrew Crawford appointed to the role. Ms Maynes joined the Company at the time of the Company's demerger from Texon Petroleum Ltd in 2013. Mr Crawford has 13 years' chartered and commercial accounting experience having commenced his career with KPMG in 2001. Mr Crawford currently holds the office of Company Secretary for ASX listed, Houston based, Maverick Drilling & Exploration Limited, whilst also delivering specialist accounting, taxation and corporate services to his private clients. In addition, from February 2010 to February 2014 Mr Crawford held the role of Chief Financial Officer of Maverick Drilling & Exploration Limited. Mr Crawford is a Chartered Accountant, Registered Tax Agent and holds a Bachelor of Commerce and Diploma of Financial Services.

**(d) AGM**

The Company's AGM was held on 30 May 2014 and all resolutions were passed.

**(e) EGM**

The Company held an EGM on 26 September 2014. All resolutions proposed to be considered at the meeting were withdrawn and not put to the meeting.



## FINANCIAL REVIEW

The Group's consolidated loss after tax for the year ended 31 December 2014 was \$12,041,928 (2013: \$11,524,142). The Group reported revenue from operations for 2014 of \$622,778 (2013: \$560,656), an increase of 11% from the 2013 year result. Net production for 2014 was 7.5 mmboe (2013: 5.7 mmboe) primarily due to the Quintanilla OL 1H (horizontal MR Olmos) well. The average oil price received for the 12 months was US\$88.82 per barrel of oil.

The Group's gross margin on sales was (15.4)% in 2014 as compared to 9.6% in 2013. Based on reserve reports and production, depletion of capital costs was the largest component of cost of sales at 52.7% (2013: 46.5%).

The Group expensed exploration expenditures during the period of \$91,574 (2013: \$195,145) which related to projects and expenditures that did not meet the Group's criteria for capitalisation and certain projects for which it was determined that further investment was not warranted. Impairment expense of oil and gas properties during the period was \$1,583,369 (2013: \$5,600,346). This was the result of an evaluation of carrying values of certain properties as compared to the estimated recoverable amount based on reserves valuation. Impairment expense of exploration and evaluation assets during the period was \$8,623,305 (2013: \$3,550,116). The Group wrote off capitalised exploration and evaluation prospects which would not be pursued due to a lack of economic viability. Impairment reversals of \$452,483 (2013: \$nil) relate to the Coolangatta prospect as a result of a successful discovery in the period.

Employee benefits and administrative expenses in 2014 decreased 29% compared to 2013 and are budgeted for further reduction in 2015.

The Company's cash position at 31 December 2014 is \$1,042,501.

## BOARD OF DIRECTORS

### **Peter Love**

#### **Chairman and Non-Executive Director**

Age – 35

Mr Love joined the Board on 15 September 2014 and was appointed Chairman on 3 November 2014.

Mr Love has extensive experience in ASX listed small cap oil and gas companies in the US as well as equity capital markets.

Mr Love currently manages capital raising and investor relations for Byron Energy Limited (formerly Trojan Equity Limited). From 2008 to mid-2011 Peter was Vice President of Operations for Maverick Drilling and Exploration Limited, a Houston, Texas-based oilfield operator and contract driller listed on ASX. Prior to his role at Maverick, Peter was Assistant Fund Manager at ASX listed Trojan Equity Limited from 2006 to 2008. Peter is a former director of DMX Corporation Limited and holds a Bachelor of Arts (majoring in English and Political Science) from the University of Queensland.

### **Clifford S. Foss Jr**

#### **CEO, President and Managing Director**

Age – 67

Mr Clifford Foss joined the Board on 26 March 2013 and was appointed CEO and President of the Company effective 7 March 2013. He was CEO of Texon from 1 December 2011 until the company was acquired by SEA on 8 March 2013.

Mr Foss has had extensive technical and management experience with six different companies over almost 40 years exploring for oil and natural gas with primary emphasis in the Gulf Coast region of Texas. During Mr Foss' career he has experienced both public and private organizational structures with emphasis on technical evaluation, acquisitions, expansions, reductions and their associated administrative activities. Mr Foss also has a broad knowledge of companies and key personnel active in the Gulf Coast region.

Mr Foss began his career in 1970 as an exploration geologist with Cities Service Oil Company working in its Gulf of Mexico operations. In 1973, Mr Foss joined Cockrell Oil Corporation, a private oil company with operations in Texas, where he was part of the team that monetised Cockrell's producing properties and became Vice-President of Exploration and Exploitation, a position Mr Foss held until 1996. From 1996 to 1998, Mr Foss was Senior Vice President and General Manager – Gulf Division for Barrett Resources Corporation and was responsible for the opening of Barrett's regional office in Houston, Texas.

KCS Energy, Inc. recruited Mr Foss in 1998 to become the Senior Vice-President and General Manager of the Gulf Coast region. While working for KCS Energy, Inc. Mr Foss was a key member of the Corporate Strategic Planning and Budgeting Committee as well as leader of the Sale Team for the Gulf Coast Division, where he was responsible for administering the merger of KCS Energy, Inc and Petrohawk Energy Corporation, which completed in 2006 in a deal worth approximately US\$2 billion. Mr Foss joined the merged entity, still called Petrohawk Energy Corporation, in 2006 as Senior Vice-President (Exploration) charged with growing and monetizing the Petrohawk's Gulf Coast assets, a process which was completed with the sale of those assets to Milagro Exploration, LLC in late 2007 for US\$825 million.

Mr Foss left Petrohawk in 2008 to form Force 5 Energy, LLC, which acquired a significant position in the early phase of the Eaglebine play in East Texas. After Force 5 Energy monetized this interest in 2010, Mr Foss joined Texon in early 2011.

Mr Foss holds a B.S. degree in Geological Science from University of Southwestern Louisiana and also completed the Executive Management Program at Rice University.

**Peter Evans**  
**Non-Executive Director**  
Age – 62

Mr Evans joined the Board on 3 November 2014.

Mr Evans has over 30 years' experience as a stockbroker with Paul E Morgan & Co and subsequent entities including Morgans Stockbroking, ABN Amro Morgans and RBS Morgans. He was Director – Sales at the Morgans entities from 1984 until 2013 and remained a Director until his retirement in 2013. He is currently Chairman of Sleepy's Pty Ltd, QEnergy Limited and Right at Home Australia. Mr Evans is serving and has served on a number of other boards over the years. He holds a Bachelor of Commerce and Diploma of Advanced Accounting from the University of Queensland.

## CORPORATE GOVERNANCE STATEMENT

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

The Company is committed to implementing and maintaining sound corporate governance practices and has considered the *ASX Corporate Governance Principles and Recommendations (Second Edition)* (“ASX Principles and Recommendations”) in the development of its corporate governance. The Board has assessed Company’s current practice against these Principles and Recommendations and notes that the Company’s practices are consistent with it except where stated below. The Board endorses a culture of continuous improvement and therefore continues to refine and develop its governance policies and practices to meet the needs of the business and in the interests of shareholders.

The following Corporate Governance Statement should be read in conjunction with the Directors’ Report on pages 20 - 39 of this Annual Report.

A summary table explaining how the Company complies with the ASX Principles and Recommendations can be found at the end of this Statement in Table 3 and on the Company’s website at [www.talonpetroleum.com.au](http://www.talonpetroleum.com.au).

The policies and charters referred to in this Statement are available on the Company’s website unless noted in this Statement that the policy or charter is an internal document.

### **Principle 1: Lay solid foundation for management and oversight**

#### ***Board responsibilities***

To ensure that the Board is well equipped to discharge its responsibilities, it has adopted a formal charter for the operation of the Board. The Board Charter sets out the Board’s role which is to be accountable to shareholders for the guiding and monitoring of the business affairs of the Company.

The Board fulfils this role by:

- ensuring that the Company’s strategic objectives are met;
- delegating responsibility for the day to day management of the Company to the Chief Executive Officer (“CEO”);
- because of the Company’s size, assisting the CEO in certain operational and management decisions;
- approving and monitoring capital expenditure;
- monitoring the cash resources of the Company on a regular basis; and
- reviewing the performance of the CEO and management on a regular basis.

The Board’s Charter is available in the Corporate Governance section of the Company’s website.

The board had two standing committees in place at 31 December 2014 - the Audit Committee and the Remuneration Committee.

As announced to the market 27 February 2015, both of these committees have been disbanded in February 2015. The Board determined that for a small company with three directors, the Committees serve no useful purpose and may in fact impede the efficient and effective operation of the board. The matters previously within the purview of those Committees will now be addressed by the full board, subject to appropriate procedures to manage conflicts of interest in matters relating to remuneration.

At the time of joining the Company, Directors and senior executives are provided with letters of appointment, together with key Company documents and information setting out their term of office, duties, rights and responsibilities, and entitlements on termination.

### ***Performance review and induction for senior executives***

The Board reviews the performance of senior executives against the Company's financial and operational performance on a regular basis. A more formal process for performance reviews of senior executives may be considered appropriate in the future. Performance reviews were completed during the year in accordance with the process agreed by the Board.

Newly appointed senior executives go through a process of induction which allows them to gain an understanding of the nature of the Company's business, current industry issues and the responsibilities and roles of the Board and senior executives.

## **Principle 2: Structure the Board to add value**

### ***Composition and operation of the Board***

The Board has been established so that it has appropriate composition, size and commitment to adequately discharge its responsibilities and duties. Collectively the Directors have a broad range of experience, expertise, skills, qualifications and contacts relevant to the business. Details of each Director's skills, experience and expertise relevant to the position of Director are contained on pages 9-10 of this Annual Report and on the Company's website.

The Board currently comprises two (2) Non-Executive Directors, one of whom is independent, and one (1) Executive Director.

The Company's Constitution provides for a maximum number of five (5) Directors with a minimum of three (3). Directors are subject to re-election by shareholders at the annual general meeting every three (3) years in accordance with the ASX Listing Rules and the Constitution.

The term in office held by each Director in office at the date of this report is as follows.

**Table 1: Details of Board tenure**

<b>Name</b>	<b>Term in office</b>
Peter Love	Under 1 year
Peter Evans	Under 1 year
Clifford Foss	Over 2 years

The Board and each Board Committee met regularly in a pre-arranged cycle and follow agreed meeting guidelines to ensure all Directors are made aware of all agenda items and are provided with all necessary information to enable them to participate in informed discussion.

### ***Independence***

An independent Director, in the view of the Company, is a Non-Executive Director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment. In determining the independent status of a Director, the Board, in accordance with the ASX Principles and Recommendations, considers whether the Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;

- is employed, or has previously been employed, in an executive capacity by the Company or another group member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional advisor or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- has a material contractual relationship with the Company.

The Board has confirmed that based on this definition of independence, Mr Evans is an independent Non-Executive Director. The Board regularly assesses the independence of each Non-Executive Director.

The Board noted Mr Love, the Company's Chairman is not considered independent due to being a substantial shareholder in the Company.

The Board noted Mr Evans' current role with Morgans Financial Limited who is a material professional advisor to the Company. The Board however determined that Mr Evans' meets the Board's definition of independence as he could not be described as an 'employee materially associated with the service provided' by Morgans Financial Limited or a principal of Morgans Financial Limited.

The role of the Chairman and Managing Director are separate. The Chairman of the Board is Mr Love. The Managing Director, CEO and President is Mr Foss.

#### ***Nomination committee***

The Board's view is that the Company is not currently of the size to justify the formation of a separate nomination committee in accordance with Recommendation 2.4 of the ASX Principles and Recommendations. The Board and the Remuneration Committee are discussed below and until February 2015 performed the functions of a nomination committee and where necessary will seek advice of external advisors in relation to this role. During February 2015 the Remuneration Committee was disbanded and this function is now managed by the Board, subject to appropriate procedures to manage conflicts of interest.

When considering a candidate as a Director, consideration is given to the candidate's ability to act in the best interests of shareholders as well as specific skills and expertise. Consideration is also given to the candidate's capacity to understand the impacts of various laws and regulations on their role and on the Company including company law, trade practices legislation, environmental law, occupational health and safety, and taxation. As the Company's operations are all located in the USA state of Texas, consideration is also given to the candidate's ability to understand the impacts of US legislation, foreign currency issues and the business environment in the US. In addition, consideration is given to the candidate's knowledge of the oil and gas industry, risk management concepts and how they apply to the Company and also whether the candidate is up to date with issues of corporate governance.

#### ***Board performance review and evaluation***

The performance of all Directors is continually monitored by the Chairman and the Board, although the Company is not of a size to warrant the development of formal performance review processes. The Chairman also speaks to each Director on an individual basis regarding their role as a Director.

A Director whose performance is unsatisfactory may be asked to retire. The Board has not formally documented the results of performance evaluations to date. As mentioned above, the Board, through the Remuneration Committee, will review the performance of each Director who is retiring by rotation under the Constitution and seeking re-election. The results of this review will form the basis of the Board's recommendation to shareholders on the proposal for re-election of the Director.

Similar to senior executives, newly appointed Directors go through a process of induction which allows them to gain an understanding of the nature of the Company's business, current industry issues, the Board's strategy and expectations concerning the performance of Directors. In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continuing professional development.

Every Director has access to the Company's employees, advisors and records in carrying out their duties and responsibilities. Every Director also has access to advice and counsel from the Chairman and the Company Secretary in carrying out their duties and responsibilities, and where appropriate, and after consultation with the Chairman, is able to seek independent professional advice at the Company's expense.

### **Principle 3: Promote ethical and responsible decision making**

The Board expects Directors and employees to observe high standards of behaviour and business ethics. All Directors, executives and employees are expected to act with integrity, striving at all times to enhance the reputation and performance of the Company.

#### ***Code of Conduct***

The Board has adopted a Code of Conduct for Directors. The Code of Conduct is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour, professionalism and practices necessary to maintain confidence in the Company's integrity. The Code of Conduct sets the standard of behaviour required in areas such as performance and conduct, meeting procedures, confidentiality of information and conflicts of interest.

#### ***Share Trading Policy***

The Board has adopted a policy for trading in Company securities by Directors, officers and employees. The purpose of this policy is to guide Directors and officers in the performance of their activities and to define the circumstances in which both they and staff, and any associates, are permitted to deal in securities. The policy addresses each of the ASX requirements including provisions relating to the prohibition of trading by directors and senior executives in Company's securities during defined blackout periods.

The Code of Conduct and Share Trading Policy have been designed with a view to ensuring the highest ethical and professional standards as well as compliance with legal obligations, and are available in the Corporate Governance section of the Company's website.

#### ***Diversity***

The Company is committed to workplace diversity and ensuring a diverse mix of skills amongst its Directors, officers and employees. The Company has always made its appointments based on merit and skills required to discharge the duties of such roles, and understands that an appropriate blend of a diverse range of employees regarding gender, age, ethnic and age diversity in Board positions, senior management or general employees, will provide a diverse range of ideas and views which may assist the Company in achieving its strategies and goals.

Due to its size and nature of operations, the Company does not currently have a Diversity Policy or objectives for achieving gender diversity in accordance with Recommendations 3.2 and 3.3 of the ASX Principles and Recommendations. The Company may consider adopting a Diversity Policy in the future as it grows in size and complexity.

As at 31 December 2014, the proportion of women in the Group are detailed in Table 2 on page 15.

**Table 2: Proportion of women in the Group**

	<b>Male</b>	<b>Female</b>
Board members:	100%	0%
Senior executives:	50%	50%
Employees:	0%	100%

**Principle 4: Safeguard integrity in financial reporting**

The Board recognises the critical importance of sound financial management and the accurate and timely reporting of financial performance. At 31 December 2014 the Board had an Audit Committee in place to assist the Board in the fulfilment of its duties and governance obligations in this area, the Board has established an Audit Committee. Its role, objective and responsibilities are set out in the Audit Committee Charter which can be viewed in the Corporate Governance section of the Company's website. During February 2015 the Audit Committee was disbanded and this function is now managed by the Board, subject to appropriate procedures to manage conflicts of interest.

In respect of the year ended 31 December 2014, the CEO has provided the Board with a statement confirming that the Company's financial reports present a true and fair view of its financial position and are in accordance with relevant accounting standards.

**Principle 5: Make timely and balanced disclosure**

The Board has adopted a Continuous Disclosure Policy which can be viewed in the Corporate Governance section of the Company's website. The purpose of this policy is to set out the procedures to be followed to enable accurate, timely, clear and adequate disclosure to the market and compliance with the ASX Listing Rules regarding disclosure. The Policy also operates to ensure that all employees are aware of their obligations for compliance within the continuous disclosure obligations.

The Company Secretary and the CEO have been nominated as the persons responsible for communications with the ASX. This role includes the responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. Further comments related to making timely and balanced disclosure are covered with consideration of the next Principle.

**Principle 6: Respect the rights of shareholders**

The Board recognises the important rights of shareholders and strives to communicate with shareholders regularly and clearly – both by electronic means and using more traditional communication methods.

The Company communicates with shareholders in its quarterly reports, financial reports, and at general meetings of shareholders where both the financial and operational aspects are presented. All information disclosed to the ASX is posted on the Company's website when it is disclosed to the ASX. Presentation material used in public presentations and to brief analysts is released to the ASX and posted on the Company's website.

The Board encourages full participation of shareholders at annual general meetings so that they are aware of the Company's progress in attaining its strategies and goals.

The external auditor attends all annual general meetings and is available to answer questions on matters relating to the audit generally, accounting policies, preparation and content of the auditor's report and the independence of the auditor in relation to the conduct of the audit.

During the year, the Company continued to develop and improve its website and communication methods with shareholders.



While the Board has not adopted a formal communications policy in accordance with recommendation 6.1 of the ASX Principles and Recommendations, it considers that its adherence to the above principles is sufficient at the current stage of development of the Company.

### **Principle 7: Recognise and manage risk**

The Company recognises that effective risk management is central to continued growth and success and has established a sound system of risk oversight, management and internal control.

Material business risks are considered informally as the Company's business evolves, plus formally at each Board meeting. The Company's policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed effectively and efficiently managed and monitored to enable achievement of the Company's business objectives.

During the 2014 year the Board formalised its policy on risk management and adopted a Risk Management Policy to govern the Company's approach to risk oversight and management, and internal control systems. A copy of the Risk Management Policy is available in the Corporate Governance section of the Company's website.

The Board is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The Board requires the CEO to design and implement the risk management and internal control system to manage the Company's material business risks, and to report to the Board. The CEO provides the Board with a risk assessment status on a regular basis.

The Board believes the current approach to risk management is appropriate at the current stage of development of the Company. Due to its present size and scale of operations, the Company does not consider that an internal audit function or a separate risk management committee is warranted. The Board through the CEO relies on system controls in place in the Company.

In accordance with Recommendations 7.2 and 7.3 of the ASX Principles and Recommendations, the Board has received assurance from the CEO and Financial Controller that:

- the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control; and
- the system is operating effectively and efficiently in all material respects in relation to business and financial reporting risks.

### **Principle 8: Remunerate fairly and responsibly**

The Remuneration Report (which forms part of the Directors' Report) sets out details of the Company's policies and practices for remunerating Directors, KMP and employees.

During the year the Company established a remuneration committee. The role, objectives and responsibilities of the Remuneration Committee is set out in its Charter, which available in the Corporate Governance section of the Company's website. During February 2015 the Audit Committee was disbanded and this function is now managed by the Board, subject to appropriate procedures to manage conflicts of interest.

The remuneration of Non-Executive Directors is structured separately from that of the Executive Directors and senior Executives. Information on remuneration for Non-Executive Directors is set out in the Remuneration Report.

The Company has a remuneration policy that provides a governance framework for the structure and operation of remuneration systems, within the context of the Company's financial and risk management framework. It provides for both fixed and performance based remuneration for all employees, and permits the Company to offer a component of performance based remuneration as equity remuneration. Further information in relation to the Company's remuneration strategy and framework can be found in the Company's Remuneration Report.

There is no scheme to provide retirement benefits, other than statutory superannuation, to Non-Executive Directors.

The Company does not currently have a policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes.

### ASX Principles and Recommendations: summary table of compliance

Table 3 below intends to provide a snapshot of how the Company complies with the ASX Principles and Recommendations.

**Table 3: Summary table of compliance with ASX Principles and Recommendations**

ASX Principles and Recommendations		Comply?	Website Documentation
<b>Principle 1 – Lay solid foundations for management and oversight</b>			
1.1	The Company has established the functions reserved to the Board and those delegated to senior executives.	Yes	Board Charter Company Constitution
1.2	The Company has disclosed its process for evaluating the performance of senior executives.	Yes	
1.3	The Company has provided the information indicated in the guide to reporting on Principle 1.	Yes, where applicable	
<b>Principle 2 – Structure the Board to add value</b>			
2.1	A majority of the Board are independent Directors.	No	Board Charter Company Constitution
2.2	The Chair is an independent Director.	No	
2.3	The roles of Chair and Chief Executive Officer are not exercised by the same individual.	Yes	
2.4	The Board has established a Nomination Committee.	The Board's view is that the Company is not currently of the size to justify the formation of a separate nomination committee. The Board, subject to appropriate procedures to manage conflicts of interest performs the functions of a nomination committee and where necessary will seek advice of external advisors in relation to this role.	
2.5	The Company has disclosed the process for evaluating the performance of the Board, its committees and individual Directors.	Yes	
2.6	The Company has provided the information indicated in the guide to reporting on Principle 2.	Yes, where applicable	
<b>Principle 3 – Promote ethical and responsible decision making</b>			
3.1	The Company has established a code of conduct and has disclosed the code or a summary of the code.	Yes	Board Charter Share Trading Policy
3.2	The Company has established a policy concerning diversity and disclosed the policy or a summary of that policy. The policy includes requirements for the Board to establish measureable objectives for	Due to its size and nature of operations, the Company does not currently have a Diversity Policy or objectives for	

achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.

achieving gender diversity. The Company may consider adopting a Diversity Policy in the future as it grows in size and complexity.

3.3	The Company has disclosed in its annual report the measureable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	N/A
3.4	The Company has disclosed in its annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Yes
3.5	The Company has provided the information indicated in the guide to reporting on Principle 3.	Yes, where applicable

#### Principle 4 – Safeguard integrity in financial reporting

4.1	The Board has established an audit committee.	No
4.2	The audit committee has been structured so that it: <ul style="list-style-type: none"> <li>• consists only of non-executive Directors</li> <li>• consists of a majority of independent Directors</li> <li>• is chaired by an independent chair, who is not chair of the Board</li> <li>• has at least three members</li> </ul>	As announced to the market 27 February 2015, the Audit Committee has been disbanded in February 2015. The Board determined that for a small company with three directors, the Committees served no useful purpose and may in fact impede the efficient and effective operation of the Board. The matters previously within the purview of this Committee will now be addressed by the full Board, subject to appropriate procedures to manage conflicts of interest.
4.3	The audit committee has a formal charter.	N/A
4.4	The Company has provided the information indicated in the guide to reporting on Principle 4.	Yes, where applicable

#### Principle 5 – Make timely and balanced disclosure

5.1	The Company has established written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and ensure accountability at senior executive level for that compliance and disclosed those policies or a summary of those policies.	Yes	Continuous Disclosure Policy
5.2	The Company has provided the information indicated in the guide to reporting on Principle 5.	Yes	

#### Principle 6 – Respect the rights of shareholders

6.1	The Company has a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclosed the policy or a summary of the policy.	While the Board has not adopted a formal communications policy, it considers that its adherence to the principles discussed in the Statement is sufficient at the current stage of development of the Company.	Continuous Disclosure Policy
6.2	The Company has provided the information indicated in the guide to reporting on Principle 6.	Yes, where applicable	

#### Principle 7 – Recognise and manage risk

7.1	The Company has established policies for the oversight and management of material business risks and disclosed a summary of	Yes	Risk Management Policy
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	those policies.	
7.2	The Board requires management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board has disclosed that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Yes.
7.3	The Board has disclosed whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes
7.4	The Company has provided the information indicated in the guide to reporting on Principle 7.	Yes, where applicable
<b>Principle 8 – Remunerate fairly and responsibly</b>		
8.1	The Board has established a remuneration committee.	As announced to the market 27 February 2015, the Remuneration Committee has been disbanded in February 2015. The Board determined that for a small company with three directors, the Committee served no useful purpose and may in fact impede the efficient and effective operation of the Board. The matters previously within the purview of this Committee will now be addressed by the full Board, subject to appropriate procedures to manage conflicts of interest.
8.2	The remuneration committee is structured so that it: <ul style="list-style-type: none"> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair</li> <li>• has at least three members</li> </ul>	N/A
8.3	The Company clearly distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes
8.4	The Company has provided the information indicated in the guide to reporting on Principle 8.	Yes, where applicable

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 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 year ended 31 December 2014 and the auditor's report thereon.

#### 1 Directors

The Directors of the Company at any time during or since the end of the year are:

**Peter Love**

(Chairman – Non-Executive) (*appointed Director 15 September 2014 and Chairman 3 November 2014*)

**Clifford S. Foss Jr**

(CEO, President and Managing Director)

**Peter Evans**

(Non-Executive) (*appointed 3 November 2014*)

**Jeffrey Forbes**

(Chairman – Non-Executive Chairman) (*retired 3 November 2014*)

**David Mason**

(Non-Executive) (*retired 27 June 2014*)

**Angus Douglas**

(Non-Executive) (*retired 3 November 2014*)

**Bruce Cowley**

(Non-Executive) (*retired 3 November 2014*)

Details of the qualifications, experience and responsibilities of the Directors are set out on pages 9 to 10 of this Annual Report.

#### 2 Company Secretary

Ms Anastasia Maynes AGIA was appointed Company Secretary of the Company on 4 April 2013 and resigned effective 3 January 2015.

Mr Andrew Crawford was appointed Company Secretary on 2 December 2014 following the resignation of Ms Anastasia Maynes.

#### 3 Principal activities

The principal activity of the Group during the financial year was to explore for and develop petroleum resources in the USA. The Group's presentation currency is Australian dollars (\$). As a consequence of declining crude prices, the Group adjusted its level of exploration and development activity in the fourth quarter of the financial year under review.

#### **4 Operating and financial review**

A detailed analysis of the financial performance of the Group is set out in the Financial Review and Operations Review sections set out on pages 3 to 8 of this Annual Report.

The Group's consolidated loss after tax for the year ended 31 December 2014 was \$12,041,928 (2013: \$11,524,142). The Group's total revenue for the year was \$622,778 (2013: \$560,656). At 31 December 2014 the Group's cash balance was \$1.0 million. The major component of the loss was impairment expense of \$10.2 million resulting from the write downs of oil and gas properties and exploration and evaluation assets. At 31 December 2014 management and the Board determined that the carrying values were no longer economically viable.

#### **5 Dividends**

No dividends have been declared, provided for or paid during or since the end of the year ended 31 December 2014.

#### **6 Significant events after the reporting date**

During the month of February 2015 the three United States based employees of the group, including Managing Director Mr Foss and Financial Controller Ms Thompson were given notice that their employment would cease under the terms detailed in their contracts. Ms Thompson's last day as an employee of the group was 10 February 2015, while Mr Foss will continue in a transitional role as Managing Director until mid-August 2015.

On 27 February 2015, the Board, Wandoo Energy, LLC ("Wandoo"), and former director John Armstrong agreed to terminate the Prospect Generation Agreement ("PGA"). As consideration for the early termination of the PGA, Talon paid US\$100,000 to Wandoo and will effect the transfer of Talon's interest in the Dunsborough prospect, the Sunshine prospect and three unleased Middle Wilcox prospects. The termination eliminates monthly payments of approximately USD \$27,000 otherwise required under the PGA for the balance of 2015.

On 23 March 2015 the group entered into a financing arrangement with an unrelated party to provide a \$200,000 unsecured loan for a period of three months at which time it is intended that the loan will be repaid from the proceeds of an equity raising, proceeds from asset sales or converted to equity. The loan carries an interest rate of 15% and had a \$5,000 establishment fee.

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

#### **7 Likely developments**

The Group plans to continue to reduce costs while maintaining its interest in key acreage. Key steps to reduce the Groups overhead structure have been enacted in quarter one of the 2015 financial year which included the employees in the US either ceasing employment or being given notice and arrangements with contractors refined to suit the more modest overhead structure.

Further information on the likely developments and expected results are included in the Operational Review section on pages 3 to 7 of this Annual Report.

#### **8 Significant changes in the state of affairs**

Other than as disclosed elsewhere in this Directors' Report, there have been no significant changes in the state of affairs of the Group during or since the end of the year ended 31 December 2014.

## 9 Environmental regulation

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

## 10 Share options

### *Unissued Shares*

At the date of this report unissued Shares of the Company under unlisted options are as follows:

**Table 1: Details of unissued Shares under unlisted options**

Class of unlisted option	Number	Exercise price (\$)	Expiry date
OP1	1,200,000	0.0675	7 March 2019 (unless vest earlier)
OP4	1,200,000	0.0675	20 June 2018
OP5	283,338	0.0675	7 March 2019 (unless vest earlier)
<b>TOTAL: 2,683,338</b>			

All of the above unlisted options were issued during the year ended 31 December 2013. Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

### *Shares issued as a result of the exercise of options*

During or since the end of the year ended 31 December 2014, no shares were issued by the Company as a result of the exercise of options.

## 11 Indemnification and insurance of officers and auditors

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

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

## 12 Directors' meetings

Attendance at Board meetings and Audit Committee meetings for the year ended 31 December 2014 is set out in Table 2 below:

**Table 2: Details of Board meetings attendance**

No. of meetings held	Board of Directors		Audit Committee	
	A	B	A	B
Peter Love	2	2	0	0
Clifford Foss	8	8	*	*
Peter Evans	2	2	0	0
Jeffery Forbes	8	8	2	2
Angus Douglas	7	8	1	2
David Mason	5	5	*	*
Bruce Cowley	8	8	2	2

A = number of meetings attended.

B = number of meetings held during the time the Director held office during the year or was a committee member.

\* = not a member of the relevant committee

### 13 Remuneration report – audited

The Directors of the Company present the Remuneration Report for the consolidated entity for the year ended 31 December 2014. The information provided in this report has been audited as required by section 308(3C) of the *Corporations Act 2001* (Cth) (“Corporations Act”) and forms part of the Directors’ Report.

It outlines Talon’s key remuneration activities in 2014 and remuneration information pertaining to the Company’s Directors, Chief Executive Officer, President and Managing Director (“CEO”) and Senior Executives who are the KMP of the consolidated entity for the purposes of the Corporations Act and the AASBs.

As announced to the market 27 February 2015, the Board has enacted cuts to reduce company overheads. In order to achieve these reductions in expenditure, significant changes have been made. The five employees of Talon in Australia and the US have either ceased employment or been given notice, and arrangements with contractors refined to suit the more modest overhead expenses. As part of this process, Talon’s Managing Director, Mr Cliff Foss, will work in a transitional role until mid-August 2015.

#### 2014 Remuneration snapshot

Fixed Remuneration	<ul style="list-style-type: none"> <li>The CEO’s total fixed remuneration of \$413,795 for 2014 did not change from 2013.</li> <li>The average fixed remuneration of Senior Executives was \$101,707. The number of Senior Executives at period end was two (2).</li> </ul>
Short Term Incentive (STI)	<ul style="list-style-type: none"> <li>The Board awarded 0% of maximum STI for the CEO and a 7.5% cash bonus for the Financial Controller for 2014.</li> </ul>
Long Term Incentive (LTI)	<ul style="list-style-type: none"> <li>No options granted in 2014.</li> <li>Talon does not currently operate a staff equity plan due to its size and scale of operations.</li> </ul>
Non-Executive Directors	<ul style="list-style-type: none"> <li>Non-executive remuneration base fees were decreased in the period.</li> </ul>



### 13.1 Remuneration strategy

The performance of Talon depends upon the quality and performance of all staff including its Non-Executive Directors, the CEO and Senior Executives. To be successful and maximise shareholder wealth, Talon must attract, motivate and retain highly skilled and experienced individuals.

The Company's remuneration philosophy is focused on promoting long term growth in shareholder returns by:

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

Talon's remuneration strategy is provided through a framework which includes a mix of fixed and variable remuneration, including short term and long term performance-based incentives, designed to maximise the financial performance and growth of the Company over time. This aims to ensure that the KMP, like shareholders, benefit in good times but that the KMP also receive less when the Company does not perform as well.

In general, the remuneration approach includes a reasonable percentage of potential annual remuneration for the CEO and Senior Executives to be delivered as 'at risk' variable remuneration. The Board retains discretion in approving the Senior Executives' short term incentive ("STI") payments in the form of cash and for the awarding of any long term incentive ("LTI") unlisted options to all staff.

In accordance with better practice corporate governance, the structure of Non-Executive Director remuneration is separate and distinct from the structure of executive remuneration.

In general, the remuneration levels have been set based on those adopted by the Company's previous parent entity, Texon, in the past. For the Managing Director and Senior Executives, remuneration levels for comparable roles in the US are also taken into account.

### 13.2 Remuneration framework

#### *Framework for CEO and Senior Executive remuneration*

The diagram below shows the key objectives of Talon's remuneration policy for the CEO and Senior Executives and how these are implemented through the Company's remuneration framework.

<b>Attract and retain talented and qualified CEO and Senior Executives</b>	<ul style="list-style-type: none"> <li>• Remuneration levels are market aligned against similar roles within industry peer companies and other listed companies of comparable size and complexity.</li> </ul>
<b>Encourage CEO and Senior Executives to strive for superior performance</b>	<ul style="list-style-type: none"> <li>• A significant component of remuneration is 'at risk' under short term and long term incentive awards.</li> <li>• Short term incentives reward the achievement or exceeding of individual or share performance targets (as applicable).</li> </ul>
<b>Align CEO and Senior Executive and shareholder interests</b>	<ul style="list-style-type: none"> <li>• Long term incentives provide a retention element through exposure to Talon equities.</li> <li>• Long term incentives are subject to vesting conditions relating to Talon share price performance.</li> <li>• Both short term and long term incentives provide an alignment with shareholder rewards through improved short term earnings growth and increasing total shareholder return.</li> </ul>

*Framework for Non-Executive Director remuneration*

The diagram below shows the key objectives of Talon's remuneration policy for Non-Executive Directors and how these are implemented through the Company's remuneration framework.

<b>Attract and retain talented and qualified Directors</b>	Fee levels are set with regard to: <ul style="list-style-type: none"> <li>• Time commitment and workload;</li> <li>• The risk and responsibility attached to the role;</li> <li>• Experience and expertise; and</li> <li>• Market benchmarking.</li> </ul>
<b>Encourage independence and impartiality</b>	<ul style="list-style-type: none"> <li>• Fee levels do not vary according to the performance of the Company or individual Director performance from year to year.</li> <li>• Market capitalisation is considered in setting the aggregate fee pool and in benchmarking of Board fees.</li> </ul>
<b>Align Director and shareholder interests</b>	<ul style="list-style-type: none"> <li>• Talon encourages its Non-Executive Directors to build a long term stake in the Company.</li> <li>• Non-Executive Directors can acquire shares through acquisition on market during trading windows.</li> </ul>

### 13.3 Remuneration governance

During the 2014 year the Company established a Remuneration Committee. As announced to the market 27 February 2015, the Remuneration Committee has been disbanded in February 2015. The Board determined that for a small company with three directors, the Committee served no useful purpose and may in fact impede the efficient and effective operation of the Board. The matters previously within the purview of this Committee will now be addressed by the full Board, subject to appropriate procedures to manage conflicts of interest.

While in operation for the 2014 year, the Remuneration Committee had the following objectives:

- assisting the Board to determine a remuneration strategy that ensures all staff are aligned to achieving Talon's business strategies and delivering value to shareholders;
- monitoring that appropriate performance management, succession planning and talent development programs are carried out by management so the link between performance and reward is maintained; and
- providing effective oversight of the development of remuneration policies and practices.

The Committee's Charter can be viewed or downloaded from the Corporate Governance section of the Company's website.

The Board has approved a remuneration policy that provides for fixed and performance-based remuneration, and permits the offer of a proportion of performance-based remuneration to employees in the form of equity. Remuneration incentives are considered annually and aligned with prevailing market conditions to ensure attraction and retention of appropriately skilled Senior Executives.

The Board will continue to assess its policy and practices with regards to remuneration incentives for Senior Executives to ensure that it is appropriate for the Company in future years.

Due to the size of the Company and the scale of its operations, the Board or the Committee has not to date commissioned advice from independent external advisors on remuneration issues although the Committee has an authority to do so under its Charter.

### 13.4 Link between Company performance and remuneration

#### *Short term incentives (STI) and long term incentives (LTI)*

The Company's share price performance was chosen as the STI measure for the CEO and as the LTI measure for all staff including the CEO and the Senior Executives. The Board believes that share price performance is the primary measure of the increase in the value of a shareholder's investment in Talon, and the achievement of shareholder value aligns the interests of the CEO and Senior Executives with the interests of shareholders.

Individual performance was chosen as the STI measure for the Senior Executives and is subject to the Board's discretion.

#### *2014 Company performance*

Talon's financial performance and the resultant consequences for shareholder return are demonstrated in Table 3 below. Both the Board and the Remuneration Committee have taken these results into consideration when making decisions relating to the remuneration of the CEO and other KMP in respect of the current financial year and in establishing a remuneration policy for performance incentives to promote corporate growth and shareholder wealth.

No new LTIs were issued to the CEO and Senior Executives for 2014. The LTI for the CEO and Senior Executives for 2013 was a grant of unlisted options subject to vesting conditions relating to Talon share price performance. No LTI options granted in 2013 vested in 2013. 33% of LTI options granted in 2013 vested in 2014.

Furthermore, 100% (2013: 67%) of the STI for the CEO was based on the share price performance and as a result none (2013: 33%) of maximum STI was awarded to the CEO for 2014. The Financial Controller was awarded a cash bonus of 7.5% as STI for 2014 (2013: All Senior Executives were awarded cash bonuses of 7.5%).

**Table 3: Company performance**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net profit after tax	\$(12,041,928)	\$(11,524,142)	\$(1,322,434)
Dividends paid or provided	Nil	Nil	Nil
Share price at end of year	\$0.01	\$0.04	n/a <sup>(1)</sup>
Basic earnings per share (cents)	(8.70)	(11.70)	(57.40)
Return on capital employed	(439%)	(87%)	(9%)

(1) Share price at the end of 2012 is not available as Talon shares did not start trading until 27 February 2012 on a deferred basis and 14 March 2013 on a normal basis.

### 13.5 CEO remuneration

#### Overview of earnings

<b>Fixed remuneration</b>	
What was the CEO's fixed remuneration in 2014?	The CEO's total fixed remuneration for 2014 was \$413,795.
<b>Short term incentives</b>	
What was the maximum STI that the CEO could achieve in 2014?	The maximum STI for the CEO was US\$50,000.
How much STI did the CEO receive for 2014 performance?	Nil
How were STI payments calculated?	To promote growth in the Company's shareholder value, 100% of the CEO's STI was based on the Company's share price performance. The Company's share price did not reach the required targets and this resulted in an STI award of nil.
<b>Long term incentives</b>	
How much annual LTI was granted to the CEO in 2014?	No new LTI was granted to the CEO in 2014.
What are the applicable vesting conditions?	N/A
<b>Outlook</b>	
Will the CEO's remuneration increase in 2015?	Under the CEO's employment agreement his fixed remuneration is fixed at US\$360,000 per annum for three (3) years up to 7 March 2016 and is to be reviewed yearly by the Board or the Remuneration Committee (as applicable). As announced 27 February 2015, the CEO will work in a transitional role until mid-August 2015 after which point he will no longer be employed as an executive by the Company.
What is the outlook for the CEO's remuneration beyond 2015?	N/A

#### At risk remuneration

For 2014, 17% of the CEO's total potential remuneration was at risk. This is a much higher proportion of 'at risk' remuneration relative to other Senior Executives because the Board considers that the CEO has greater scope to personally influence the Company's performance.

**Table 4: Relative weightings of remuneration components for CEO<sup>1</sup>**

	Fixed remuneration	Maximum potential STI	Maximum potential LTI valued at grant date
2014	83%	10%	7%
2013	67%	26%	7%

<sup>1</sup>These figures do not reflect the actual relative value derived by the CEO from each of the components, which is dependent on actual achievements of targets for the 'at risk' components. The figures represent the maximum potential of each component.

*Employment agreement and termination entitlements*

The Company engaged Mr Foss under an employment agreement as CEO for a three (3) year term that commenced 7 March 2013. It was agreed between the Company and Mr Foss 10 February 2015 that Mr Foss would work in a transitional role for 6 months.

In accordance with the termination provisions of Mr Foss's employment agreement, the Company has agreed to provide remuneration during the 6 month transitional period consisting of:

- Fixed remuneration which includes:
  - annual salary of US\$360,000, prorated for 6 months;
  - group family health cover up to an amount not exceeding US\$25,000 prorated for 6 months ; and
  - 4% employer matching Safe Harbor contribution to the 401(k) plan up to a maximum legal limit which is US\$10,600 for 2015.
- LTI remuneration for the term of Mr Foss's employment agreement consisting of unlisted options that were issued on 20 June 2013 in accordance with shareholder approval granted at 30 May 2013 AGM and are further discussed at section 13.9 below.

The termination provisions in Mr Foss' agreement are shown in Table 5.

**Table 5: Termination provisions for CEO**

	<b>Notice period</b>	<b>Payment in lieu of notice</b>
Employer-initiated termination without cause	6 months	6 months
Employer initiated termination for cause	None	None
Employee initiated termination without cause	6 months	5 months

### **13.6 Senior Executive remuneration**

#### *Overview of earnings*

<b>Fixed remuneration</b>	
What was the fixed remuneration for Senior Executives in 2014?	The average fixed remuneration of Senior Executives in 2014 was \$203,414. There were two Senior Executives at year end.
<b>Short term incentives</b>	
What was the maximum STI that the Senior Executives could achieve in 2014?	The maximum STI for the Financial Controller was 20% of her annual fixed remuneration for achieving performance targets at the discretion of the Board. The remuneration package of the Company Secretary does not comprise a fixed STI component.
How were STI payments calculated?	To promote superior performance, 100% of the STI for each Senior Executive was based on individual performance.
How much STI did Senior Executives receive for 2014?	STI of 7.5% was awarded to the Financial Controller for 2014 on 15 December 2014.
<b>Long term incentives</b>	
How much annual LTI was granted in 2014?	No new LTI was granted to the Senior Executives in 2014.
What are the applicable vesting conditions?	N/A

**Outlook**

Will the Senior Executives' remuneration increase in 2015?	It is unlikely that the level of fixed and total remuneration for the Senior Executives for 2015 will materially increase unless Board considers that the increase is necessary to be competitive with industry peers and other listed companies of comparable size and complexity.
What is the outlook for the Senior Executives' remuneration beyond 2015?	The Board expects to review the Senior Executives' remuneration annually in accordance with Talon's remuneration policy and individual employment contracts (as applicable).

*At risk remuneration*

For 2014, 12% of the Senior Executives' total potential remuneration was at risk.

**Table 6: Relative weightings of remuneration components for Senior Executives<sup>1</sup>**

	<b>Fixed remuneration</b>	<b>Maximum potential STI</b>	<b>Maximum potential LTI valued at grant date</b>
2014	88%	11%	1%
2013	92%	7%	1%

<sup>1</sup>These figures do not reflect the actual relative value derived by the Senior Executives from each of the components, which is dependent upon actual achievements of targets for the 'at risk' components. The figures represent the maximum potential of each component.

*Employment agreements and termination entitlements*

The Company entered into employment or consultancy agreements with the current Senior Executives listed in Table 10 on page 32.

**Table 7: Termination provisions for Senior Executives**

	<b>Notice period</b>	<b>Payment in lieu of notice</b>
<b>Ms Thompson<sup>1</sup></b>		
Employer-initiated termination without cause	1 month	1 month
Employer termination for cause	None	None
Employee initiated termination without cause	1 month	1 month
<b>Ms Maynes<sup>2</sup></b>		
Company-initiated termination without cause	2 months	2 months
Company or Consultant-initiated termination for cause	1 month	1 month
Consultant-initiated termination without cause	2 months	2 months
<b>Mr Crawford<sup>3</sup></b>		
Company-initiated termination without cause	0 months	0 months
Company or Consultant-initiated termination for cause	0 month	0 month
Consultant-initiated termination without cause	0 months	0 months

<sup>1</sup> Ms Thompson's employment contract was terminated as part of restructure 10 February 2015.

<sup>2</sup> Ms Maynes' retired effective 3 January 2015.

<sup>3</sup> Mr Crawford acts as Company Secretary on a consultancy arrangement which has no fixed term.

### 13.7 Non-Executive Director remuneration

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

#### *Maximum aggregate amount*

Aggregate remuneration to non-executive directors approved by the shareholders at the annual general meeting on 30 May 2014 is not to exceed \$300,000 per annum unless further approval is obtained.

The Directors agree the amount of remuneration for Non-Executive Directors each year (which cannot exceed the maximum amount determined by shareholders) and the manner in which it is divided between Directors.

The Board's current practice is to apportion a higher fee to the Chairman than to the other Non-Executive Directors. Non-Executive Directors do not receive extra fees for being members of any Board Committee.

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

#### *Remuneration*

The remuneration of Non-Executive Directors for the year ended 31 December 2014 is detailed in Table 9 on page 31.

#### *Fee structure*

**Table 8: Annual fees for Non-Executive Directors in 2014<sup>1</sup>**

<b>From 1 January to 31 March:</b>	<b>Chair</b>	<b>Member</b>
Board	\$100,000 p.a.	\$50,000 p.a.
<b>From 1 April to 31 July:</b>	<b>Chair</b>	<b>Member</b>
Board	\$80,000 p.a.	\$40,000 p.a.
<b>From 1 August to 31 December:</b>	<b>Chair</b>	<b>Member</b>
Board	\$40,000 p.a.	\$20,000 p.a.

<sup>1</sup> Fees are shown inclusive of superannuation and membership of any Board Committees.

#### *Superannuation and retirement benefits*

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

### 13.8 Detailed remuneration information

#### CEO and Non-Executive Directors 2014 remuneration

Table 9 presents summarised details of the remuneration for the CEO and Non-Executive Directors in 2014 as required under the Corporations Act.

**Table 9: CEO and Non-Executive Directors 2014 remuneration details**

Directors	Year	Short Term			Post-employment		Share-based payments <sup>1</sup>		% of total remuneration at risk subject to:	
		Salary & Directors Fees	Bonus	Non-monetary benefits <sup>2</sup>	Pension and Superannuation	Termination	Options	Total	Performance	Options
		\$	\$	\$	\$	\$	\$	\$	%	%
Cliff Foss <i>President, CEO and Managing Director</i>	2014	413,795	-	22,050	11,397	-	36,677	483,919	0%	8%
Peter Love <i>Chairman and Non-Executive Director (appointed 15 September 2014)</i>	2014	8,371	-	-	795	-	-	9,166	0%	0%
Peter Evans <i>Non-Executive Director (appointed 3 November 2014)</i>	2014	3,044	-	-	289	-	-	3,333	0%	0%
<b>Former Directors</b>										
Jeff Forbes <i>Chairman and Non-Executive Director (resigned 3 November 2014)</i>	2014	56,411	-	2,500	5,834	-	-	64,745	0%	0%
Bruce Cowley <i>Non-Executive Director (resigned 3 November 2014)</i>	2014	28,205	-	-	2,917	-	-	31,122	0%	0%
Angus Douglas <i>Non-Executive Director (resigned 3 November 2014)</i>	2014	28,205	-	-	2,917	-	-	31,122	0%	0%
Dave Mason <i>Non-Executive Director (resigned 25 June 2014)</i>	2014	24,306	-	-	-	-	-	24,306	0%	0%
<b>Subtotal Directors</b>	<b>2014</b>	<b>562,337</b>	<b>-</b>	<b>24,550</b>	<b>24,149</b>	<b>-</b>	<b>36,677</b>	<b>647,713</b>		

<sup>1</sup> Share-based payments comprise equity-settled share options. These amounts were calculated in accordance with AASB 2 Share-based payment. Share options are valued using the Black Scholes option pricing model and Binomial Tree methodology. Although a value is ascribed and included in the total KMP compensation, it should be noted that the Directors and Senior Executives have not received this amount in cash.

<sup>2</sup> Amounts disclosed in non-monetary benefits include car parking, motor vehicle expenses and health insurance benefits.



**Detailed remuneration information (continued)**

Table 10 presents summarised details of the remuneration for the Senior Executives in 2014 as required under the Corporations Act.

**Table 10: Senior Executives 2014 remuneration details**

Senior Executives	Year	Short Term			Post-employment		Share based payment <sup>s1</sup>	Total	% of total remuneration at risk subject to:	
		Salary & Directors Fees	Bonus	Non-monetary benefits <sup>2</sup>	Pension and Superannuation	Termination	Options		Performance	Options
		\$	\$	\$	\$	\$	\$		%	%
Catherine Thompson <i>Financial Controller</i>	2014	145,596	11,830	22,291	5,060	-	1,824	186,601	6%	1%
Andrew Crawford <i>Company Secretary</i> <i>(appointed 2 December 2014)</i>	2014	2,950	-	-	-	-	-	2,950	-	-
Anastasia Maynes <i>Company Secretary</i> <i>(retired 3 January 2015)</i>	2014	54,868	-	-	5,132	-	662	60,662	-	1%
<b>Subtotal Senior Executives</b>	<b>2014</b>	<b>203,414</b>	<b>11,830</b>	<b>22,291</b>	<b>10,192</b>	<b>-</b>	<b>2,486</b>	<b>250,213</b>		
<b>Total – Directors and Senior Executives</b>	<b>2014</b>	<b>765,751</b>	<b>11,830</b>	<b>46,841</b>	<b>34,341</b>	<b>-</b>	<b>39,163</b>	<b>897,926</b>		

<sup>1</sup> Share-based payments comprise equity-settled share options. These amounts were calculated in accordance with AASB 2 Share-based payment. Share options are valued using the Black Scholes option pricing model and Binomial Tree methodology. Although a value is ascribed and included in the total KMP compensation, it should be noted that the Directors and Senior Executives have not received this amount in cash.

<sup>2</sup> Amounts disclosed in non-monetary benefits include car parking, motor vehicle expenses and health insurance benefits.

**Detailed remuneration information (continued)***CEO and Non-Executive Directors 2013 remuneration*

Table 11 presents summarised details of the remuneration for the CEO and Non-Executive Directors in 2013 as required under the Corporations Act.

**Table 11: CEO and Non-Executive Directors 2013 remuneration details**

Table 11: CEO and Non-Executive Directors 2013 Remuneration Details										
			Short Term		Post-employment		Share-based payments <sup>1</sup>		% of total remuneration at risk subject to:	
Directors	Year	Salary & Directors Fees	Bonus	Non-monetary benefits <sup>2</sup>	Pension and Superannuation	Termination	Options	Total	Performance	Options
		\$	\$	\$	\$	\$	\$	\$	%	%
Cliff Foss <i>President, CEO and Managing Director (appointed 7 March 2013)</i>	2013	413,479	48,173	15,947	-	-	39,193	516,792	29%	8%
Jeff Forbes <i>Chairman and Non-Executive Director (appointed 4 April 2013)</i>	2013	60,535	-	-	5,564	-	-	66,099	0%	0%
Bruce Cowley <i>Non-Executive Director (appointed 30 May 2013)</i>	2013	24,452	-	-	2,253	-	-	26,705	0%	0%
Angus Douglas <i>Non-Executive Director (appointed 18 March 2013)</i>	2013	36,171	-	-	3,313	-	-	39,484	0%	0%
Dave Mason <i>Non-Executive Director (appointed 14 September 2011)</i>	2013	55,090	-	-	-	-	-	55,090	0%	0%
<b>Former Directors</b>										
Bernard Rowley <i>Non-Executive Director (resigned 18 March 2013)</i>	2013	1,922	-	-	173	-	-	2,095	0%	0%
John Armstrong <i>Previous Chairman (resigned 30 May 2013)</i>	2013	17,570	-	-	7,629	-	-	25,199	0%	0%
<b>Subtotal Directors</b>	<b>2013</b>	<b>609,219</b>	<b>48,173</b>	<b>15,947</b>	<b>18,932</b>	<b>Nil</b>	<b>39,193</b>	<b>731,464</b>		

<sup>1</sup> Share-based payments comprise equity-settled share options. These amounts were calculated in accordance with AASB 2 Share-based payment. Share options are valued using the Black Scholes option pricing model and Binomial Tree methodology. Although a value is ascribed and included in the total KMP compensation, it should be noted that the Directors and Senior Executives have not received this amount in cash.

<sup>2</sup> Amounts disclosed in non-monetary benefits include car parking, motor vehicle expenses and health insurance benefits.

**Detailed remuneration information (continued)**

Table 12 presents summarised details of the remuneration for the Senior Executives in 2013 as required under the Corporations Act.

**Table 12: Senior Executives 2013 remuneration details**

Senior Executives	Year	Short Term			Post-employment		Share based payment <sup>s1</sup>	Total	% of total remuneration at risk subject to:	
		Salary & Directors Fees	Bonus	Non-monetary benefits <sup>2</sup>	Pension and Superannuation	Termination	Options		Performance	Options
		\$	\$	\$	\$	\$	\$		%	%
Catherine Thompson <i>Financial Controller</i> <i>(appointed 1 November 2013)</i>	2013	24,451	11,005	3,905	-	-	865	40,226	28%	2%
Anastasia Maynes <i>Company Secretary</i> <i>(appointed 4 April 2013)</i>	2013	30,783	4,500	-	3,468	-	470	39,221	11%	1%
<b>Former Senior Executives</b>										
Michael Hills <i>Financial Controller</i> <i>(resigned 30 April 2013)</i>	2013	99,475	-	5,412	-	-	-	104,887	0%	0%
Ron McCaslin <i>Financial Controller</i> <i>(resigned 1 August 2013)</i>	2013	40,131	-	9,175	-	-	-	49,306	0%	0%
Des Olling <i>Company Secretary</i> <i>(resigned 4 April 2013)</i>	2013	12,480	-	-	-	-	-	12,480	0%	0%
<b>Subtotal Senior Executives</b>	<b>2013</b>	<b>207,320</b>	<b>15,505</b>	<b>18,492</b>	<b>3,468</b>	<b>Nil</b>	<b>1,335</b>	<b>246,120</b>		
<b>Total – Directors and Senior Executives</b>	<b>2013</b>	<b>816,539</b>	<b>63,678</b>	<b>34,439</b>	<b>22,400</b>	<b>Nil</b>	<b>40,528</b>	<b>977,584</b>		

<sup>1</sup> Share-based payments comprise equity-settled share options. These amounts were calculated in accordance with AASB 2 Share-based payment. Share options are valued using the Black Scholes option pricing model and Binomial Tree methodology. Although a value is ascribed and included in the total KMP compensation, it should be noted that the Directors and Senior Executives have not received this amount in cash.

<sup>2</sup>Amounts disclosed in non-monetary benefits include car parking, motor vehicle expenses and health insurance benefits.

A summary of options were granted to Mr Foss and KMP are detailed in Table 13 below. No options granted as part of remuneration vested during the period.

**Table 13: Unlisted options granted as part of remuneration**

							Value per option at grant date (\$)
		Grant Date	Expiry Date	Number	Value (\$)	Exercise price (\$)	
<b>Directors</b>							
Cliff Foss –	Tranche 1	30 May 2013	7 March 2019	1,200,000	28,800	0.0675	0.024
	Tranche 2	30 May 2013	7 March 2020	1,100,000	30,800	0.0675	0.028
	Tranche 3	30 May 2013	7 March 2021	1,100,000	34,100	0.0675	0.031
<b>Senior Executives</b>							
A Maynes –	Tranche 1	13 August 2013	7 March 2019	33,334	389	0.0675	0.0117
	Tranche 2	13 August 2013	7 March 2020	33,333	489	0.0675	0.0147
	Tranche 3	13 August 2013	7 March 2021	33,333	575	0.0675	0.0172
C Thompson –	Tranche 1	4 November 2013	7 March 2019	66,668	870	0.0675	0.0130
	Tranche 2	4 November 2013	7 March 2020	66,666	1,090	0.0675	0.0164
	Tranche 3	4 November 2013	7 March 2021	66,666	1,277	0.0675	0.0192
		-			-		
<b>Total</b>				<b>3,700,000</b>	<b>98,060</b>		

### 13.9 Equity instruments held by key management personnel

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

#### Directors' and Senior Executives interests in shares

	Year	Shares held at 1 January	Net acquisitions and disposals during the year	Received on exercise of options	Other changes during the year	Shares held at 31 December
<b>Current Directors</b>						
Peter Love	2014	-	-	-	22,298,223 <sup>(5)</sup>	22,298,223
Clifford Foss	2014	31,600	890,137 <sup>(1)</sup>	-	-	921,737
	2013	-	31,600 <sup>(2)</sup>	-	-	31,600
Peter Evans	2014	-	-	-	9,477,156 <sup>(5)</sup>	9,477,156
<b>Previous Directors</b>						
Dave Mason	2014	7,283,690	480,000 <sup>(3)</sup>	-	(7,763,690) <sup>(6)</sup>	-
	2013	-	7,283,690 <sup>(2)</sup>	-	-	7,283,690
Jeffrey Forbes	2014	21,602	237,478 <sup>(4)</sup>	-	(259,080) <sup>(6)</sup>	-
	2013	-	21,602 <sup>(2)</sup>	-	-	21,602
Angus Douglas	2014	2,780,237	2,888,175 <sup>(4)</sup>	-	(5,668,412) <sup>(6)</sup>	-
	2013	-	2,780,237 <sup>(2)</sup>	-	-	2,780,237
Bruce Cowley	2014	56,809	191,732 <sup>(4)</sup>	-	(248,541) <sup>(6)</sup>	-
	2013	-	56,809 <sup>(2)</sup>	-	-	56,809
<b>Senior Executives</b>						
Catherine Thompson	2014	-	-	-	-	-
	2013	-	-	-	-	-
<b>Former Senior Executives</b>						
Anastasia Maynes	2014	210,000	-	-	(210,000) <sup>(6)</sup>	-
	2013	-	210,000 <sup>(2)</sup>	-	-	210,000

(1) Interests in Shares acquired during the year result from on-market trades.

(2) Interests in Shares acquired during the 2013 financial year were received pursuant to or in connection with the Demerger Scheme.

(3) Interests in Shares acquired during the year result from the scheme of arrangement with Wandoo, a company in which Mr David Mason is the principal shareholder.

(4) Shares issued during the year were received pursuant to the non-renounceable pro-rata Entitlement Offer and through acquisition in accordance to the sub-underwriting agreement with Morgans Corporate Limited.

(5) Balance of shares at appointment date.

(6) Balance of shares at retirement date.

**Equity instruments held by key management personnel (continued)****Directors' and Senior Executives interests in options**

	Year	Options held at 1 January	Granted during the year	Exercised during the year	Expired or forfeited during the year	Options held at 31 December	% vested at 31 December
<b>Current Directors</b>							
Clifford Foss	2014	3,400,000	-	-	-	3,400,000	35%
	2013	-	3,400,000	-	-	3,400,000	0%
<b>Previous Directors</b>							
Dave Mason	2014	1,200,000	-	-	-	1,200,000	100%
	2013	-	-	-	-	1,200,000	100%
<b>Senior Executives</b>							
Catherine Thompson	2014	200,000	-	-	-	200,000 <sup>(1)</sup>	33%
	2013	-	200,000	-	-	200,000	0%
<b>Former Senior Executives</b>							
Anastasia Maynes	2014	100,000	-	-	-	100,000 <sup>(2)</sup>	33%
	2013	-	100,000	-	-	100,000	0%

(1) Initial grant was 200,000 options of which 133,332 were forfeited 10 February 2015, the date of termination of employment with the Group.

(2) Initial grant was 100,000 options of which 66,666 were forfeited 3 January 2015, the last day of employment with the Group.

**13.10 Loans to key management personnel and their related parties**

There were no loans made to key management personnel or their related parties during the reporting period. Mr Cliff Foss, the Managing Director of the Group, has deferred salary of \$84,835 as at 31 December 2014. The amounts were voluntarily deferred to benefit corporate cash flow and accrued no interest. On 27 February 2015 all amounts owed to Mr Foss for deferred salary were repaid. Refer to Note 22.

Mr Peter Evans, a Non-executive Director and Mr Andrew Crawford, the Company Secretary, each had fees owed to them as at 31 December 2014. At year end the Group owed \$3,333 to Mr Evans and \$3,245 to Mr Crawford for services performed during 2014.

**13.11 Other key management personnel transactions**

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

	Transaction values for the year ended 31 December		Balance outstanding as at 31 December	
	2014	2013	2014	2013
	\$	\$	\$	\$
Company Secretary services	63,612	39,221	3,245	-
Prospect generation and seismic services	405,708	737,765	78,580	30,513

Wandoo Energy, LLC, a company controlled by Mr D Mason, provided the Group with services during the period under a prospect generation agreement. During the current period \$356,295 (2013: \$532,546) was paid by the Group and its related parties to Wandoo for these services.

During the current period Wandoo Energy, LLC was compensated for additional seismic and other services outside of the prospect generation agreement in the amount of \$49,413 (2013: \$205,219).

All Non-Executive Directors participated in sub-underwriting the Entitlement Offer which closed 18 August 2014. Participation was either direct or through their associated entities for an aggregate of \$85,000 which resulted in the issuance of 7,727,273 shares to the Non-Executive Directors. The underwriter, Morgans Corporate Limited, agreed to pay the sub-underwriters a 2% fee in respect of their commitments. Individual investments and sub-underwriting fees received are detailed below.

	Sub-underwriting commitments		Sub-underwriting fees received	
	2014	2013	2014	2013
	\$	\$	\$	\$
Jeff Forbes	40,000	-	800	-
Bruce Cowley	25,000	-	500	-
Angus Douglas	20,000	-	400	-

Box One Corporate Pty Ltd, a Company controlled by Mr A Crawford, receives payment for the services of Mr A Crawford to the Group. The agreement for these services was based on normal commercial terms and conditions. The service payment amount is disclosed as senior executive remuneration in Table 10.

**End of Remuneration Report – audited.**

## 14 Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the period by the auditor and in accordance with written advice provided by resolution of the Audit Committee, is satisfied that the provision of those non-audit services during the period by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Board and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the period are set out in Table 14 below.

**Table 14: Non-audit services**

	Consolidated Period 1 Jan 2014 – 31 Dec 2014 \$	Consolidated Period 1 Jan 2013 – 31 Dec 2013 \$
Audit services:		
Auditors of the Company, KPMG Australia – audit and review of financial reports	82,374	88,000
Other services:		
KPMG Australia – taxation and other services	9,290	31,078
KPMG US – taxation and other services	72,482	89,278
	<b>164,146</b>	<b>208,356</b>

## 16 Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration as required under section 307C of the Corporations Act is set out on page 40 of this Annual Report and forms part of the Directors' Report for the year ended 31 December 2014.

Signed in accordance with a resolution of Directors.



**Peter Love**  
Chairman  
Brisbane, Queensland  
26 March 2015





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

To: the Directors of Talon Petroleum Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2014 there have been:

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

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'Stephen Board'.

Stephen Board  
Partner

Brisbane  
26 March 2015

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2014**

	<b>Note</b>	<b>Consolidated Period 1 Jan 2014 – 31 Dec 2014</b>	<b>Consolidated Period 1 Jan 2013 – 31 Dec 2013</b>
Revenue	2	622,778	560,656
Cost of oil and gas sold	3	(718,457)	(506,745)
<b>Net gain on sale of oil and gas</b>		<b>(95,679)</b>	<b>53,911</b>
Other income		110,219	237,116
Employee benefits	3	(627,906)	(644,428)
Administrative and other expenses	3	(1,133,845)	(1,838,916)
Exploration and evaluation expenditure expensed	3	(91,574)	(195,145)
Impairment expense	3	(10,206,674)	(9,150,462)
<b>Results from operating activities</b>		<b>(12,045,459)</b>	<b>(11,537,924)</b>
<b>Finance income</b>		<b>3,531</b>	<b>13,782</b>
<b>Profit / (loss) before income tax</b>		<b>(12,041,928)</b>	<b>(11,524,142)</b>
Income tax expense	4	-	-
<b>Profit / (loss) for the period</b>		<b>(12,041,928)</b>	<b>(11,524,142)</b>
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation differences, net of tax		37,459	2,264,234
<b>Total comprehensive income / (loss) attributable to owners of the company</b>		<b>(12,004,469)</b>	<b>(9,259,908)</b>
		<b>Cents</b>	<b>Cents</b>
<b>Basic earnings per share</b>	6	<b>(8.70)</b>	<b>(11.70)</b>
<b>Diluted earnings per share</b>	6	<b>(8.70)</b>	<b>(11.70)</b>

The notes on pages 45 to 74 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2014**

	<b>Note</b>	<b>Consolidated 2014 \$</b>	<b>Consolidated 2013 \$</b>
<b>Current assets</b>			
Cash and cash equivalents		1,042,501	2,707,655
Short term financial assets		-	1,148,913
Trade and other receivables	7	177,389	434,403
Prepayments		65,472	96,077
<b>Total current assets</b>		<b>1,285,362</b>	<b>4,387,048</b>
<b>Non-current assets</b>			
Security deposits		60,975	56,058
Property, plant, and equipment		12,975	25,210
Oil and gas properties	8	1,457,059	1,708,748
Exploration and evaluation assets	9	618,669	8,550,320
<b>Total non-current assets</b>		<b>2,149,678</b>	<b>10,340,336</b>
<b>TOTAL ASSETS</b>		<b>3,435,040</b>	<b>14,727,384</b>
<b>Current liabilities</b>			
Trade and other payables		(598,048)	(1,043,457)
Employee benefits		(92,877)	(53,950)
<b>Total current liabilities</b>		<b>(690,925)</b>	<b>(1,097,407)</b>
<b>Non-current liabilities</b>			
Provisions	10	(517,068)	(421,553)
<b>Total non-current liabilities</b>		<b>(517,068)</b>	<b>(421,553)</b>
<b>TOTAL LIABILITIES</b>		<b>(1,207,993)</b>	<b>(1,518,960)</b>
<b>NET ASSETS</b>		<b>2,227,047</b>	<b>13,208,424</b>
<b>Equity</b>			
Issued capital	12	33,294,835	32,314,548
Reserves	12	2,564,569	2,484,305
Retained earnings		(33,632,357)	(21,590,429)
<b>TOTAL EQUITY</b>		<b>2,227,047</b>	<b>13,208,424</b>

The notes on pages 45 to 74 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2014**

<b>Consolidated</b>	<b>Note</b>	<b>Share capital</b>	<b>Share option reserve</b>	<b>Foreign currency translation reserve</b>	<b>Restructure reserve</b>	<b>Retained earnings / (accumulated losses)</b>	<b>Total equity</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at 1 January 2014		32,314,548	73,110	2,411,195	-	(21,590,429)	13,208,424
<b>Total comprehensive income for the period</b>							
Profit / (loss) for the period		-	-	-	-	(12,041,928)	(12,041,928)
<b>Other comprehensive income</b>							
Foreign exchange translation differences		-	-	37,459	-	-	37,459
<b>Total comprehensive income for the period</b>		-	-	<b>37,459</b>	-	<b>(12,041,928)</b>	<b>(12,004,469)</b>
<b>Transactions with owners, recorded directly in equity</b>							
<b>Contributions by and distributions to owners</b>							
Shares issued	12	980,287	-	-	-	-	980,287
Share option reserve	12	-	42,805	-	-	-	42,805
<b>Balance at 31 December 2014</b>		<b>33,294,835</b>	<b>115,915</b>	<b>2,448,654</b>	-	<b>(33,632,357)</b>	<b>2,227,047</b>
Balance at 1 January 2013		25,221,495	-	146,961	(8,743,853)	(1,322,434)	15,302,169
<b>Total comprehensive income for the period</b>							
Profit / (loss) for the period		-	-	-	-	(11,524,142)	(11,524,142)
<b>Other comprehensive income</b>							
Foreign exchange translation differences		-	-	2,264,234	-	-	2,264,234
<b>Total comprehensive income for the period</b>		-	-	<b>2,264,234</b>	-	<b>(11,524,142)</b>	<b>(9,259,908)</b>
<b>Transactions with owners, recorded directly in equity</b>							
<b>Contributions by and distributions to owners</b>							
Shares issued		7,093,053	-	-	-	-	7,093,053
Share option reserve		-	73,110	-	-	-	73,110
Restructure reserve transfer		-	-	-	8,743,853	(8,743,853)	-
<b>Balance at 31 December 2013</b>		<b>32,314,548</b>	<b>73,110</b>	<b>2,411,195</b>	-	<b>(21,590,429)</b>	<b>13,208,424</b>

Amounts are stated net of tax.

The notes on pages 45 to 74 are an integral part of these consolidated financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 31 DECEMBER 2014**

	<b>Note</b>	<b>Consolidated Period 1 Jan 2014 - 31 Dec 2014 \$</b>	<b>Consolidated Period 1 Jan 2013 - 31 Dec 2013 \$</b>
<b>Cash flows used in operating activities</b>			
Cash receipts from customers		599,087	542,294
Cash paid to suppliers and employees		(1,902,832)	(2,017,329)
Interest received		3,643	13,782
<b>Net cash used in operating activities</b>	<b>19</b>	<b>(1,300,102)</b>	<b>(1,461,253)</b>
<b>Cash flows used in investing activities</b>			
Exploration, evaluation and development expenditure		(3,178,312)	(4,465,599)
Acquisition of property, plant and equipment		(8,390)	(14,179)
Disposition of property, plant and equipment		4,530	
Investments in short term financial assets		1,148,913	(1,485,258)
Transactions with joint venture asset partners		234,402	-
Proceeds from sale of oil and gas properties		140,364	102,010
<b>Net cash used in investing activities</b>		<b>(1,658,493)</b>	<b>(5,863,026)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	7,090,630
Proceeds from the issuance of shares		980,287	-
<b>Net cash from financing activities</b>		<b>980,287</b>	<b>7,090,630</b>
Net increase/(decrease) in cash and cash equivalents		(1,978,308)	(233,649)
Effect of exchange rate fluctuations on cash held		313,154	415,174
Cash and cash equivalents at beginning of period		2,707,655	2,526,130
<b>Cash and cash equivalents at 31 December</b>		<b>1,042,501</b>	<b>2,707,655</b>

The notes on pages 45 to 74 are an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Note	
1	Significant accounting policies
2	Revenue
3	Expenses
4	Income tax expense
5	Auditors' remuneration
6	Earnings per share
7	Trade and other receivables
8	Oil and gas properties
9	Exploration and evaluation expenditure
10	Provisions
11	Tax assets and liabilities
12	Equity and reserves
13	Share based payments
14	Financial instruments
15	Capital and other commitments
16	Contingencies
17	Consolidated entities
18	Interest in joint arrangements
19	Reconciliation of cash flows from operating activities
20	Related parties
21	Parent entity disclosures
22	Subsequent events

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****1. SIGNIFICANT ACCOUNTING POLICIES**

Talon Petroleum Limited (the “Company” or “Talon”) is a company incorporated and domiciled in Australia whose shares are publicly listed on the ASX (ASX code: TPD). The Company’s registered office is at Suite 2, 24 Bolton Street, Newcastle, NSW, 2300. The consolidated financial statements of the Company as at and for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the “Group”). The Group is a for-profit entity whose principal activity during the financial year was to explore for and develop petroleum resources in the USA.

**(a) Statement of compliance**

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

The consolidated financial statements were authorised for issue by the Board of Directors on 26 March 2015.

**(b) Going concern**

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

The Group has incurred a loss of \$12,041,928 in the year ended 31 December 2014 and has accumulated losses of \$33,632,357 as at 31 December 2014. The Group has cash on hand of \$1,042,501 at 31 December 2014 and used \$1,300,102 of cash in operations and \$3,178,312 for exploration, evaluation and development for the year ended 31 December 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
- 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.

Management has prepared cash flow projections that support the ability of the Group to continue as a going concern. These projections reflect a reduction in expenditure compared to prior periods and assume the raising of additional equity during the next 12 months.

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(c) New accounting standards and interpretations**

Certain new accounting standards and interpretations have become effective for annual reporting periods beginning after 1 January 2014. The Group's assessment of the impact of these new standards and interpretations is set out below.

**New and revised Accounting Standards not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory have not been early adopted by the Group for the annual reporting period ended 31 December 2014.

AASB 9 *Financial Instruments* addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2018 but is available for early adoption. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

AASB 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 111 *Construction Contracts* and AASB 118 *Revenue*. The standard is not applicable until 1 January 2018 but is available for early adoption. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

**Adoption of new and revised Accounting Standards**

The Group has adopted the following new amendment to Australian Accounting Standard 124 *Related Party Disclosures*, as well as any consequential amendments to other standards, with a date of initial application of 1 January 2014.

***AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement***

The consolidated entity has applied 2011-4 which amends AASB 124 "Related Party Disclosures" by removing the disclosure requirements for individual key management personnel ("KMP"). Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No.1) now specify the KMP disclosure requirements to be included within the Directors' Report.

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

**(d) Basis of preparation**

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

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(d) Basis of preparation (continued)**

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

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

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

**(e) Measurement of fair values**

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

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

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

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

Further information about the assumptions made in measuring fair values is described in Note 8 – Oil and Gas Properties, Note 13 - Share-based payments, and in Note 14 – Financial Instruments.

**(f) Basis of consolidation*****Subsidiaries***

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

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

***Transactions eliminated on consolidation***

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(f) Basis of consolidation (continued)*****Joint arrangements***

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

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

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

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

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

**(g) Foreign currency*****Functional and presentation currency***

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

***Foreign currency transactions***

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(g) Foreign currency (continued)*****Financial statements of foreign operations***

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

***Net investment in foreign operations***

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

**(h) Cash and cash equivalents**

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

**(i) Trade and other receivables**

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost less the provision for impairment. Trade receivables are generally due for settlement within 60 days from the date of sale. Other receivables are generally settled within 30 days.

**(j) Property, plant and equipment*****Owned assets***

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

***Subsequent costs***

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

***Depreciation***

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(j) Property, plant and equipment (continued)**

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

The Group anticipates that all plant, equipment, furniture and fixtures will be fully depreciated within 2 years.

***Gains and losses on disposal***

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

**(k) Oil and gas properties**

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

**(k) Oil and gas properties (continued)**

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

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

**(l) Exploration and evaluation expenditure**

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(l) Exploration and evaluation expenditure (continued)**

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

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

**(m) Impairment*****Financial assets***

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

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

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

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

***Non-financial assets***

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(n) Trade and other payables**

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

**(o) Provisions*****Employee benefits – Short term obligations***

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effects of the time value of money are material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The Group recognises a provision for employment benefit obligations of annual and personal leave and retirement benefits.

***Restoration***

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

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

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

**(p) Employee benefits*****Short term obligations***

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

***Defined contribution superannuation funds***

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(p) Employee benefits (continued)*****Long term incentives***

The Company did not have an established option plan during the financial year but did issue options to employees and contractors as long term incentive remuneration in 2013. The fair value of options granted is recognised as an expense with a corresponding increase in equity (share-based payment reserve). The fair value is measured at grant date and spread over the period during which the employees and vendors become unconditionally entitled to the options. The fair value of the options granted is measured using a valuation technique, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market-related conditions.

**(q) Share capital – transaction costs**

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

**(r) Revenue and other income*****Sale of oil and gas***

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

***Other income***

Other income includes the proceeds from the disposal of non-current assets and gains resulting from non-recurring or non-standard transactions. Proceeds from the disposal of non-current assets are recognised at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs). A gain is realised when there is a measurable increase in equity to the Group that arises from peripheral transactions not in the ordinary course of business.

**(s) Lease payments*****Operating lease payments***

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

**(t) Income tax**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(t) Income tax (continued)**

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

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

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

**(u) Segment reporting**

The Group determines operating segments based on the information that internally is provided to the 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 \$2,141,748 (2013: \$10,337,237) and Australia \$7,930 (2013: \$3,102).

**(v) Goods and services tax**

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

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

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****2. REVENUE**

	<b>Consolidated Period 1 Jan 2014 - 31 Dec 2014 \$</b>	<b>Consolidated Period 1 Jan 2013 - 31 Dec 2013 \$</b>
<b>Revenue</b>		
Oil sales	603,605	560,656
Gas sales	19,173	-
	<b>622,778</b>	<b>560,656</b>

**Operating segment disclosures**

All of the Group's oil revenues are from two customers located in the USA. This amount represents more than 97% of the Group's revenue.

**3. EXPENSES**

	<b>Consolidated Period 1 Jan 2014 - 31 Dec 2014 \$</b>	<b>Consolidated Period 1 Jan 2013 - 31 Dec 2013 \$</b>
<b>Cost of oil and gas sold</b>		
Production taxes	28,563	25,848
Lease operating expenses	167,937	136,890
Overhead allocations	143,608	108,026
Depletion	378,349	235,981
	<b>718,457</b>	<b>506,745</b>

	<b>Consolidated Period 1 Jan 2014 - 31 Dec 2014 \$</b>	<b>Consolidated Period 1 Jan 2013 - 31 Dec 2013 \$</b>
<b>Employee benefit expenses</b>		
Wages and salaries	887,558	943,510
Share based payments	39,503	39,768
Other associated employee costs	114,203	127,705
Increase / (decrease) in annual leave liability	30,978	19,871
<sup>1</sup> Less: overhead allocation	(444,336)	(486,426)
	<b>627,906</b>	<b>644,428</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. EXPENSES (continued)**

	<b>Consolidated Period 1 Jan 2014 - 31 Dec 2014 \$</b>	<b>Consolidated Period 1 Jan 2013 - 31 Dec 2013 \$</b>
<b>Administrative and other expenses</b>		
General corporate	562,778	587,734
<sup>2</sup> Consultants	514,582	897,024
Compliance	304,671	382,808
Expense work overs	97,781	173,181
Demerger expenses	-	535,072
<sup>1</sup> Less: overhead allocation	(345,967)	(736,903)
	<b>1,133,845</b>	<b>1,838,916</b>

<sup>1</sup> Overhead allocations are directly attributable costs which are capitalised as Exploration and Evaluation assets or added to Oil and Gas Properties.

<sup>2</sup> Payments to Consultants includes \$3,302 in share based payments.

**Exploration and evaluation expenditure**

Exploration and evaluation expenditure includes expenditures related to exploration and evaluation activities for the period that are attributable to unleased properties; total exploration expensed \$91,574 (2013: \$195,145).

**Impairment Expense**

The Group evaluated the carrying values its oil and gas properties and found that the carrying value of certain assets was higher than the assessed recoverable amount. The estimates of the recoverable amounts were determined based on value in use using a pre-tax discount rate of 10% (2013: 10%). The Group has also written off capitalised exploration and evaluation properties which will not be pursued due to lack of economic viability. Refer to Note 9 for the details. The assets were impaired accordingly:

	<b>Consolidated Period 1 Jan 2014 - 31 Dec 2014 \$</b>	<b>Consolidated Period 1 Jan 2013 - 31 Dec 2013 \$</b>
Oil and gas properties, net of depletion	1,583,369	5,600,346
Exploration and evaluation assets	8,623,305	3,550,116
	<b>10,206,274</b>	<b>9,150,462</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****4. INCOME TAX EXPENSE****Numerical reconciliation between tax expense and pre-tax net profit / (loss)**

	<b>Consolidated Period 1 Jan 2014 - 31 Dec 2014 \$</b>	<b>Consolidated Period 1 Jan 2013 - 31 Dec 2013 \$</b>
Profit / (loss) before tax	(12,041,928)	(11,524,142)
Income tax expense/(benefit) using the domestic corporation tax rate of 30%	(3,612,578)	(3,457,243)
Increase/(decrease) in income tax expense due to:		
Change in unrecognised deferred tax assets	4,195,970	3,993,134
Non-deductible expenditure	1,009	658
Other deductible items	(13,403)	-
Effect of tax rates in foreign jurisdictions	(570,998)	(536,549)
Income tax expense/(benefit)	-	-

Income tax expense consists of current tax expense of \$nil (2013: \$nil) and deferred tax expense of \$nil (2013: \$nil).

Income tax expense/benefit recognised directly in equity for the Group is \$nil (2013: \$nil).

**5. AUDITOR'S REMUNERATION**

	<b>Consolidated Period 1 Jan 2014 – 31 Dec 2014 \$</b>	<b>Consolidated Period 1 Jan 2013 – 31 Dec 2013 \$</b>
<b>Audit services:</b>		
Auditor of the Company, KPMG Australia – audit and review of financial reports	82,374	88,000
<b>Other services:</b>		
KPMG Australia – taxation and other services	9,290	31,078
KPMG US – taxation and other services	72,482	89,278
	164,146	208,356

**6. EARNINGS PER SHARE****Basic**

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

**Diluted**

Diluted earnings per share adjusts the amounts used in determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that may arise from the exercise of options outstanding during the financial year. There were no dilutive options as at the year ended 31 December 2014 or 31 December 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 6. EARNINGS PER SHARE (continued)

	Consolidated Period 1 Jan 2014 - 31 Dec 2014 Cents	Consolidated Period 1 Jan 2013 - 31 Dec 2013 Cents
Basic earnings per share	(8.70)	(11.70)
Diluted earnings per share	(8.70)	(11.70)
	\$	\$
Profit / (loss) used in the calculation of basic and diluted earnings per share	(12,041,928)	(11,524,142)

## 2014 Weighted average number of ordinary shares (basic and diluted)

## Number

Shares issued and outstanding at 31 December 2013	102,135,433
Issue of ordinary shares 4 April 2014	356,384
Issue of ordinary shares 25 August 2014	35,985,686
Weighted average number of ordinary shares used as the denominator in calculating 2014 basic and diluted earnings per share	138,477,503

## 2013 Weighted average number of ordinary shares (basic and diluted)

## Number

Shares issued and outstanding at 31 December 2012	84,039,316
Effect of shares issued 25 February 2013	8,465,753
Effect of shares issued 7 March 2013	3,355,449
Effect of shares issued 6 May 2013	2,619,178
Weighted average number of ordinary shares used as the denominator in calculating 2013 basic and diluted earnings per share	98,479,696

## 7. TRADE AND OTHER RECEIVABLES

	Consolidated 2014 \$	Consolidated 2013 \$
<b>Current</b>		
Trade receivables	168,972	120,514
Other receivables	8,417	313,889
	177,389	434,403

The Group's exposure to credit risk, foreign exchange risk and interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 14.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 8. OIL AND GAS PROPERTIES

	Consolidated 2014 \$	Consolidated 2013 \$
<b>Oil and gas properties</b>		
<b>Cost</b>		
Balance at beginning of period	2,488,244	7,329,593
Additions / (disposals)	-	(42,358)
Transferred from exploration and evaluation expenditure	1,597,910	-
Impairment expense	(1,583,369)	(5,600,346)
Foreign exchange translation	219,784	801,355
Balance at 31 December	2,722,569	2,488,244
<b>Accumulated depletion</b>		
Balance at beginning of period	779,496	375,928
Depletion expense	378,349	235,981
Foreign exchange translation	107,665	167,587
Balance at 31 December	1,265,510	779,496
<b>Carrying amounts</b>		
At beginning of period	1,708,748	6,953,665
At 31 December	1,457,059	1,708,748

At 31 December 2014, the Company evaluated the carrying values of oil and gas properties in comparison with their estimated recoverable amounts based on reserves valuations prepared by independent third party reserve engineers and determined that certain properties were impaired in value. An impairment expense of \$1,583,369 (2013: \$5,600,346) has been recorded.

	Recoverable Amount (value in use) \$	Impairment Expense \$
<b>Impairment of oil and gas properties 2014</b>		
*Hoskins Unit #1	15,732	97,444
Wheeler #1	568,531	951,882
Quintanilla OL 1H	652,555	278,108
Bonner 1H	121,950	48,906
*Brice Bonner	5,976	68,708
Scherer #2	114,023	138,321
	1,478,767	1,583,369

\* The Hoskins Unit #1 and the Brice Bonner were impaired to \$nil.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****9. EXPLORATION AND EVALUATION ASSETS**

	<b>Consolidated 2014 \$</b>	<b>Consolidated 2013 \$</b>
Balance at beginning of period	8,550,320	6,499,769
Acquisitions	1,385,625	2,787,683
Additions	1,011,939	1,677,916
Transferred to oil and gas properties	(1,597,910)	-
Impairment expense	(9,075,788)	(3,550,116)
Impairment reversals	452,483	-
Sale of exploration and evaluation assets	(41,430)	-
Foreign exchange translation	(66,570)	1,135,068
Balance at 31 December	618,669	8,550,320

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 areas of interest.

During the period the Company impaired exploration and evaluation assets which will not be pursued due to lack of economic viability. An impairment expense of \$9,075,788 (2013: \$3,550,116) has been recorded.

Impairment reversals of \$452,483 (2013: \$nil) relate to the Coolangatta prospect as a result of a successful discovery in the period.

**10. PROVISIONS**

	<b>Consolidated 2014 \$</b>	<b>Consolidated 2013 \$</b>
<b>Non-current Restoration provision</b>		
Balance at beginning of period	421,553	288,332
Provisions made during the period	53,030	86,329
Foreign exchange translation	42,485	46,892
Balance at 31 December	517,068	421,553

**11. TAX ASSETS AND LIABILITIES****Recognised deferred tax assets and liabilities**

Deferred tax assets and (liabilities) are attributable to the following:

	<b>Consolidated 2014 \$</b>	<b>Consolidated 2013 \$</b>
Exploration and development expenditure	-	(379,601)
Other items	-	21,056
Tax losses	-	358,545
Net tax liabilities	-	-

**Unrecognised deferred tax assets**

The Group has tax losses with a potential tax benefit of \$7,845,152 (2013: \$6,644,606) for which deferred tax assets have not been recognised. In addition, the group has unrecognised temporary differences relating to exploration and development expenditure with a potential tax benefit of \$2,998,253

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****11. TAX ASSETS AND LIABILITIES (continued)**

(2013: potential tax loss of \$380,430) and unrecognised temporary differences relating to other items with a potential tax benefit of \$28,654 (2013: \$21,102).

The deductible temporary differences and tax losses do not expire under current Australian tax legislation. USA tax losses expire after a period of 20 years. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

In March 2014 the Group executed a settlement deed with Sundance Energy Australia Limited (“Sundance”) in which the Group agreed to review deductible 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 result was a reallocation of \$2.3 million in unrecognised deferred tax assets from Talon to Sundance.

**12. EQUITY AND RESERVES****Share capital**

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

	<b>Consolidated Period 1 Jan 2014 - 31 Dec 2014</b>	<b>Consolidated Period 1 Jan 2013 - 31 Dec 2013</b>
	<b>Ordinary shares (number)</b>	<b>Ordinary shares (number)</b>
On issue at beginning of period	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	
Issue of ordinary shares 25 August 2014	102,615,433	
On issue at end of period – fully paid	205,230,866	102,135,433

**Issuance of ordinary shares**

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

The Company undertook a fully-underwritten 1-for-1 pro rata non-renounceable entitlement offer to raise 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. All issued shares are fully paid and per share amounts have been adjusted retrospectively for comparison purposes.

**Ordinary shares**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. EQUITY AND RESERVES (continued)****Options Reserve**

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

	<b>Consolidated Period 1 Jan 2014 - 31 Dec 2014</b>	<b>Consolidated Period 1 Jan 2013 - 31 Dec 2013</b>
	<b>Options (number)</b>	<b>Options (number)</b>
Outstanding at 1 January	5,450,000	-
Granted during the period	-	5,450,000
Exercised during the period	-	-
Forfeited during the period	-	-
Outstanding at end of period	5,450,000	5,450,000
Exercisable at 31 December	2,683,338	1,200,000

The options granted to Mr Foss, employees and consultants are exercisable at \$0.0675 each in the following three tranches as follows:

- 1,483,338 options vested on, and were exercisable on and from 7 March 2014;
- 1,383,331 options vest on, and were exercisable on and from the earlier of 7 March 2015 or the day on which the VWAP of the Shares on the ASX over the previous 10 consecutive trading days exceeds \$0.2025; and
- 1,383,331 options vest on, and are exercisable on and from the earlier of 7 March 2016 or the day on which the VWAP of the Shares on the ASX over the previous 10 consecutive trading days exceeds \$0.27.

The 1,200,000 options issued to Wandoo are also exercisable at \$0.0675 and may only be exercised once the VWAP has exceeded 150% of the exercise price for 5 consecutive trading days. Also, if there is a change in control of the Company, any unvested performance options will vest immediately upon the occurrence of the change of control and will remain exercisable at the exercise price until the expiry of performance options.

The Company's option reserve at 31 December 2014 reflects the aggregate fair value of options expensed \$115,915 (2013: \$73,110).

**Foreign currency translation reserve**

The foreign currency translation reserve comprised all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity. Talon has four US based subsidiaries (Note 17) for which the functional currency is the US dollar. Translation into the presentation currency of Australian dollars creates a translation difference that is adjusted to the foreign currency reserve.

**Dividends**

No dividends have been declared, provided for or paid in 2014 (2013: nil). In respect to the payment of dividends by the Company in subsequent reporting periods (if any), no franking credits are currently available.

**13. SHARE BASED PAYMENTS**

During the year ended 31 December 2013 the Group granted unlisted share options subject to vesting conditions to key management personnel and consultants as long term incentives. No additional share options were granted to key management personnel or consultants during the year ended 31 December 2014. The following outlines the key terms and conditions related to the existing option grants.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****13. SHARE BASED PAYMENTS (continued)****A. Summary of options granted pursuant to the incentive programme**

	<b>2014</b>		<b>2013</b>	
	<b>Average exercise price per share option</b>	<b>Number of options</b>	<b>Average exercise price per share option</b>	<b>Number of options</b>
As at 1 January	\$0.0675	5,450,000	-	-
Granted during the year	-	-	\$0.0675	5,450,000
Exercised during the year	-	-	-	-
*Forfeited during the year	-	-	-	-
As at 31 December	\$0.0675	5,450,000	\$0.0675	5,450,000
Vested and exercisable at 31 December	\$0.0675	2,683,338	\$0.0675	1,200,000

\* On 3 January 2015, 66,666 options were forfeited prior to vesting due to the retirement of Ms A Maynes.

\* On 10 February 2015, 499,996 options issued to employees and consultants were forfeited prior to vesting due to employment terminations as a result of a corporate restructure.

\* On 10 February 2015, 2,200,000 options were forfeited prior to vesting due to the employment termination of Mr C Foss as result of a corporate restructure.

No options expired during the periods covered by the above table.

**B. Summary of expiry dates and exercise prices**

<b>Grant Date</b>		<b>Expiry date</b>	<b>Exercise price</b>	<b>Share Options 31 December 2014</b>	<b>Share Options 31 December 2013</b>
30 May 2013		20 June 2018	\$0.0675	1,200,000	1,200,000
	Tranche 1	7 March 2019	\$0.0675	1,200,000	1,200,000
	Tranche 2	7 March 2020	\$0.0675	1,100,000	1,100,000
	Tranche 3	7 March 2021	\$0.0675	1,100,000	1,100,000
13 August 2013	Tranche 1	7 March 2019	\$0.0675	216,670	216,670
	Tranche 2	7 March 2020	\$0.0675	216,665	216,665
	Tranche 3	7 March 2021	\$0.0675	216,665	216,665
4 November 2013	Tranche 1	7 March 2019	\$0.0675	66,668	66,668
	Tranche 2	7 March 2020	\$0.0675	66,666	66,666
	Tranche 3	7 March 2021	\$0.0675	66,666	66,666
Total				5,450,000	5,450,000
Weighted average remaining contractual life of options outstanding at end of period				4.79 years	5.79 years

**C. Measurement of fair values**

The fair value of employee stock options has been measured by application of the Black-Scholes formula and Monte-Carlo simulations. Market-based performance conditions are incorporated into the valuation models used to determine fair value of the awards whereas non-market based performance conditions are not included in the determination of fair value. The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans are listed below. There were no options granted during the financial year ended 31 December 2014.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 13. SHARE BASED PAYMENTS (continued)

## C. Measurement of fair values (continued)

## Grant Date 30 May 2013

Award type	Performance options			Performance options
Recipient	C Foss			Wandoo
Tranche	1	2	3	
Vesting date	7 March 2014	7 March 2015	7 March 2016	20 June 2013
Expiry date	7 March 2019	7 March 2020	7 March 2021	20 June 2018
Share price at grant date	\$0.05	\$0.05	\$0.05	\$0.05
Exercise price	\$0.0675	\$0.0675	\$0.0675	\$0.0675
Expected life	3.3 years	4.3 years	5.3 years	3.1 years
Volatility	80%	80%	80%	80%
Risk free interest rate	2.65%	2.78%	2.92%	2.64%
Dividend yield	0%	0%	0%	0%

## Grant Date 13 August 2013

Award type	Performance options		
Recipients	A Maynes, Consultants and Employees		
Tranche	1	2	3
Vesting date	7 March 2014	7 March 2015	7 March 2016
Expiry date	7 March 2019	7 March 2020	7 March 2021
Share price at grant date	\$0.037	\$0.037	\$0.037
Exercise price	\$0.0675	\$0.0675	\$0.0675
Expected life	2.99 years	3.99 years	4.99 years
Volatility	70%	70%	70%
Risk free interest rate	2.61%	2.83%	3.05%
Dividend yield	0%	0%	0%

## Grant Date 4 November 2013

Award type	Performance options		
Recipients	C Thompson		
Tranche	1	2	3
Vesting date	7 March 2014	7 March 2015	7 March 2016
Expiry date	7 March 2019	7 March 2020	7 March 2021
Share price at grant date	\$0.04	\$0.04	\$0.04
Exercise price	\$0.0675	\$0.0675	\$0.0675
Expected life	2.84 years	3.84 years	4.84 years
Volatility	70%	70%	70%
Risk free interest rate	3.01%	3.22%	3.42%
Dividend yield	0%	0%	0%

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****13. SHARE BASED PAYMENTS (continued)****D. The total expense recognised in relation to share options is as follows:**

	<b>Consolidated 2014 \$</b>	<b>Consolidated 2013 \$</b>
Employee benefits – employee options	39,503	40,761
Administrative and other expenses – consultant options	3,302	2,349
	42,805	43,110
Exploration and evaluation property – allocated overhead	nil	30,000

**14. FINANCIAL INSTRUMENTS****A. Financial Risk Management**

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

- market risk
- credit risk
- liquidity risk

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

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

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

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

**B. Market Risk**

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

*Commodity price risk*

The Group is exposed to commodity price risk as oil and gas prices fluctuate depending on market conditions. The Group does not presently enter into hedging arrangements to hedge this risk, which historically has been considered appropriate by the Board taking into account the Group's size, current stage of development, financial position and the Board's approach to risk management. With the sharp decline in oil prices experienced during the fourth quarter of 2014, the Board is monitoring market conditions to assess the need to adapt its policy.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****14. FINANCIAL INSTRUMENTS (continued)****B. Market Risk (continued)***Currency risk*

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

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

In AUD	2014		2013	
	Australia \$	US \$	Australia \$	US \$
Cash and cash equivalents	137,056	905,445	358,645	2,349,010
Short term financial assets, net of provision	-	-	1,148,913	-
Trade and other receivables (current)	5,223	172,166	17,691	416,712
Prepayments	21,484	43,988	21,352	74,725
Security deposits (non-current)	-	60,975	-	56,058
Trade and other payables	(53,939)	(544,109)	(19,051)	(1,024,406)
Net exposure	109,824	638,465	1,527,550	1,872,099

The following significant exchange rates applied during the period.

AUD	Average rate		Reporting date spot rate	
	2014	2013	2014	2013
USD	0.91	0.97	0.82	0.89

*Sensitivity analysis*

The functional currency of the main operating entities in the Group is US dollars. For the period 1 January 2014 to 31 December 2014 the majority of the Groups' operations were located in the USA and the majority of transactions and balances were denominated in US dollars. The Group's presentation currency is Australian dollars. Based on the financial instruments held at 31 December 2014, a 10% movement in the US dollar against the Australian dollar would have resulted in \$70,940 increase / \$58,042 decrease in comprehensive net income (2013: \$208,011 increase / \$170,191 decrease).

In 2014 the US dollar strengthened relative to the Australian dollar resulting in a \$5,221 foreign currency translation loss on the statement of comprehensive income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****14. FINANCIAL INSTRUMENTS (continued)****B. Market Risk (continued)***Interest rate risk*

Talon's interest rate risk arises from cash and cash equivalents and short term financial assets at variable interest rates. Based on the 31 December 2014 balance of variable rate cash deposits, if prevailing interest rates had increased or decreased by 25 basis points during the period, the effect would have been an increase / decrease in interest income of \$2,606 (2013: \$3,244), assuming that all other variables remain constant. At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was as follows. The Company has no borrowings which would expose it to interest rate risk.

	<b>Rates</b>	<b>Consolidated 2014</b>	<b>Consolidated 2013</b>
Cash and cash equivalents	Variable	1,042,501	2,707,655
Short term financial assets, net of provision	Variable	-	1,485,258
		1,042,501	4,192,913

**C. Credit risk**

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

	<b>Note</b>	<b>Consolidated Carrying amount 2014 \$</b>	<b>Consolidated Carrying amount 2013 \$</b>
Cash and cash equivalents		1,042,501	2,707,655
Short term financial assets		-	1,485,258
Trade and other receivables (current)	7	177,389	434,403
Security deposits (non-current)		60,975	56,058
		1,280,865	4,683,374

The maximum exposure to credit risk for cash and cash equivalents and short term financial assets at the reporting date by geographic region was as set out below. The exposure was partially offset by various government guarantees in place in the jurisdictions, and these guarantees are one of the factors considered by the Group in the allocation its cash resources between regions and financial institutions. The directors are comfortable with the credit quality of the financial institutions utilised by the Group. Accrued revenue from Talon's primary customer, a subsidiary of a Global Fortune 500 company, accounts for the majority of the amounts due from trade and other receivables. The security deposit is an amount held with the Texas Railroad Commission. The directors are comfortable with the credit quality of both entities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****14. FINANCIAL INSTRUMENTS (continued)****C. Credit risk**

	<b>Consolidated Carrying amount 2014 \$</b>	<b>Consolidated Carrying amount 2013 \$</b>
<b>By Country, Moody's rating</b>		
Australia – A3	-	1,479,140
Australia – Aa2	135,330	363,120
USA – Aa3	905,411	2,349,010

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

**D. Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient cash or liquid assets to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group monitors its cash holdings on a regular basis in relation to actual cash flows, financial obligations and planned activities in order to manage liquidity risk.

The Group's financial liabilities consist of trade payables of \$598,048 (2013: \$1,043,457) and employee benefits of \$92,877 (2013: \$53,950). The contractual cash flows equal the carrying amounts and are due in six months or less.

**E. Capital management**

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

**E. Capital management (continued)**

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

**F. Fair values**

The fair values of the Group's financial assets and financial liabilities at 31 December 2014 are assumed to approximate their carrying amounts due to the short term nature of the instruments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****15. CAPITAL AND OTHER COMMITMENTS****Non-cancellable operating lease expense commitments**

Non-cancellable operating lease rentals are payable as follows:

	<b>Consolidated 2014 \$</b>	<b>Consolidated 2013 \$</b>
Less than one year	116,165	122,143
Between one and five years	98,699	115,841
	<b>214,864</b>	<b>237,984</b>

The operating lease rentals relate to office and equipment leases with terms ranging from one to five years. During the period \$121,841 (2013: \$192,726) was recognised by the Group as an expense in the statement of comprehensive income in respect of operating leases.

**Other commitments**

Commitments under a prospect generation agreement with Wandoo Energy, LLC, a company controlled by Mr D Mason:

	<b>Consolidated 2014 \$</b>	<b>Consolidated 2013 \$</b>
Less than one year	140,170	403,614
Between one and five years	-	403,614
More than five years	-	-
	<b>140,170</b>	<b>807,228</b>

Subsequent to year end, the Company has terminated the Prospect Generation Agreement with Wandoo Energy, LLC. Refer to Note 22.

**16. CONTINGENCIES****Indemnities**

Indemnities have been provided to directors and certain executive officers of the Company to the extent permitted by law against all liabilities incurred in their capacity as officers of the Company and its controlled entities and all reasonable legal costs incurred by any of them in the defence of an action for a liability incurred by that officer. No monetary limit applies to these agreements and there are no known obligations outstanding at 31 December 2014 (2013: \$nil).

**Guarantees**

The Group has provided guarantees and deposits of \$60,975 (2013: \$56,058) in relation to exploration activities in Texas, USA.

**Litigation**

The Group has no outstanding litigations as at 31 December 2014. (2013: \$336,345).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****17. CONSOLIDATED ENTITIES**

	Country of Incorporation	Ownership interest 2014 %	Ownership interest 2013 %
<b>Parent entity</b>			
Talon Petroleum Limited			
<b>Subsidiaries</b>			
Texon I Pty Ltd	Australia	100	100
Rubox Pty Ltd	Australia	100	100
Texoz E&P Holdings I, Inc.	USA	100	100
Texoz E&P Holdings III, Inc.	USA	100	100
Texoz E&P I, Inc.	USA	100	100
Texoz E&P III, Inc.	USA	100	100

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

**18. INTERESTS IN JOINT ARRANGEMENTS****Joint arrangements**

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

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

Operating Agreement	Location	Purpose	Talon Relationship	Working Interest
Texoz - Wandoo (Wheeler #1, Hoskins #1, Hoskins #2)	McMullen County, TX	Operation & Production	Operator	95%
Texoz – O'Brien (Bonner 1H)	Navarro County, TX	Operation & Production	Non-operator	23.98%
Texoz – O'Brien (Brice Bonner #1)	Navarro County, TX	Operation & Production	Non-operator	1%
Texoz - Aurora Resources Corporation (Scherer #2)	Jackson County, TX	Operation & Production	Non-operator	10%
Texoz, et al (Olmos – Quintanilla OL 1H)	McMullen County, TX	Operation & Production	Operator	10%
Texoz - Aurora Resources Corporation, (Eagle Lake Unit #2)	Colorado County, TX	Operation & Production	Non-operator	6.25%

The Group does not have any joint venture arrangements as defined under AASB 11. The Group has variations of standard operating agreements typical of working interest arrangements with upstream oil and gas companies in the United States. Our review of the above mentioned operating agreements indicates that none of these agreements would be classified as a joint venture. The issue of unanimous joint control while not explicit in the agreements may be considered implicit. In each of these agreements, the parties account for their proportionate interest in assets, liabilities, revenue, and expenses.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****19. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES**

	<b>Consolidated Period 1 Jan 2014 – 31 Dec 2014 \$</b>	<b>Consolidated Period 1 Jan 2013 – 31 Dec 2013 \$</b>
<b>Cash flows from operating activities</b>		
Profit / (loss) for the period	(12,041,928)	(11,524,142)
Adjustments for non-cash items:		
Exploration and evaluation expenditure written-off	-	3,745,261
Impairments	10,206,674	5,600,346
Depreciation – plant and equipment	20,194	60,253
Depletion – oil and gas properties	378,349	235,981
Net gain on sale of oil and gas properties	(98,934)	(102,010)
Share based payments expense	42,805	43,110
Non-cash other income items	(13,249)	(132,998)
Gain on disposal of fixed assets	(3,944)	(2,108)
<b>Operating profit/(loss) before changes in working capital and provisions</b>	<b>(1,510,033)</b>	<b>(2,076,307)</b>
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(35,176)	(277,155)
(Increase)/decrease in prepayments	32,757	(58,419)
(Decrease)/increase in payables	173,423	959,820
(Decrease)/increase in employee benefits	38,927	(9,192)
<b>Net cash used in operating activities</b>	<b>(1,300,102)</b>	<b>(1,461,253)</b>

**20. RELATED PARTIES**

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

**Executive director**

Mr C Foss (Managing Director, President and CEO)

**Non-executive directors**

Mr J Forbes (Chairman, retired 3 November 2014)

Mr P Love (appointed 15 September 2014 as a Director and 3 November 2014 as Chairman)

Mr D Mason (retired 27 June 2014)

Mr A Douglas (retired 3 November 2014)

Mr B Cowley (retired 3 November 2014)

Mr P Evans (appointed 3 November 2014)

**Executives**

Ms A Maynes (Company Secretary, retired 2 December 2015)

Mr Andrew Crawford (Company Secretary, appointed 2 December 2014)

Ms C Thompson (Financial Controller)

Directors of the Company control 17% of the voting shares of Talon Petroleum Limited. The movement during the reporting period in the number of ordinary shares in Talon Petroleum Limited held directly, indirectly or beneficially, by each key management personnel, including their related parties is provided in the remuneration report, pages 23 – 38.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****20. RELATED PARTIES (continued)****Key management personnel compensation**

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

	<b>Consolidated Period 1 Jan 2014 – 31 Dec 2014 \$</b>	<b>Consolidated Period 1 Jan 2013 – 31 Dec 2013 \$</b>
Short term benefits	824,422	914,656
Post-employment benefits	34,341	22,400
Share-based payment	39,163	40,528
	<b>897,926</b>	<b>977,584</b>

**21. PARENT ENTITY DISCLOSURES**

As at, and throughout, the financial year ended 31 December 2014 the parent entity of the Group was Talon Petroleum Limited.

	<b>2014 \$</b>	<b>2013 \$</b>
<b>Result of the parent entity</b>		
Loss for the period	(12,002,502)	(19,155,659)
Other comprehensive income for the period	-	-
	<b>(12,002,502)</b>	<b>(19,155,659)</b>
<b>Financial position of the parent entity at period end</b>		
Current assets	1,819,322	1,535,618
Total assets	2,280,986	13,227,475
Current liabilities	53,939	19,051
Total liabilities	53,939	19,051
<b>Total equity of the parent entity comprising of:</b>		
Share capital	33,294,377	32,312,125
Reserves	115,915	73,110
Accumulated losses	(31,183,245)	(19,176,811)
Total Equity	<b>2,227,047</b>	<b>13,208,424</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**22. SUBSEQUENT EVENTS**

During the month of February 2015 the three United States based employees of the group, including Managing Director Mr Foss and Financial Controller Ms Thompson were given notice that their employment would cease under the terms detailed in their contracts. Ms Thompson's last day as an employee of the group was 10 February 2015, while Mr Foss will continue in a transitional role as Managing Director until mid-August 2015.

On 27 February 2015, the Board, Wandoo Energy, LLC ("Wandoo"), and former director John Armstrong agreed to terminate the Prospect Generation Agreement ("PGA"). As consideration for the early termination of the PGA, Talon paid US\$100,000 to Wandoo and will effect the transfer of Talon's interest in the Dunsborough prospect, the Sunshine prospect and three unleased Middle Wilcox prospects. The termination eliminates monthly payments of approximately USD \$27,000 otherwise required under the PGA for the balance of 2015.

On 23 March 2015 the group entered into a financing arrangement with an unrelated party to provide a \$200,000 unsecured loan for a period of three months at which time it is intended that the loan will be repaid from the proceeds of an equity raising, proceeds from asset sales or converted to equity. The loan carries an interest rate of 15% and had a \$5,000 establishment fee.

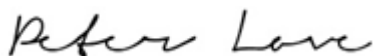
## DIRECTORS' DECLARATION

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

- (a) the consolidated financial statements and notes set out on pages 41 to 74 and the Remuneration report in section 13 of the Directors' Report set out on pages 20 to 39, are in accordance with the *Corporations Act 2001* (Cth), including:
  - (i) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth);
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a);
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* (Cth) for the financial year ended 31 December 2014.

Signed in accordance with a resolution of the Directors.



**Peter Love**  
Chairman  
Brisbane, Queensland  
26 March 2015



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

### **Report on the financial report**

We have audited the accompanying financial report of Talon Petroleum Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2014, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 22 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 year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(a), the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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



### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's opinion*

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

### *Material uncertainty regarding continuation as a going concern*

Without modifying our opinion, we draw attention to note 1(b), 'Going concern' in the consolidated financial report. The conditions disclosed in note 1(b) 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 consolidated financial report.

### **Report on the remuneration report**

We have audited the Remuneration Report included in section 13 of the Directors' Report for the year ended 31 December 2014. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

### *Auditor's opinion*

In our opinion, the Remuneration Report of Talon Petroleum Limited for the year ended 31 December 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Stephen Board  
Partner

Brisbane  
26 March 2015

**ADDITIONAL INFORMATION**

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

**(a) Distribution of security holders**

A distribution schedule of the number of holders, by size of holding, in each class of equity securities as at 19 March 2015:

Category	Number of fully paid ordinary shares	Number of holders of fully paid ordinary shares	Number of unlisted options	Number of holders of unlisted options
1-1,000	106,166	243		
1,001-5,000	1,349,066	466		
5,001-10,000	2,195,336	299		
10,001-100,000	18,895,340	630	150,000	2
100,001-and over	182,684,958	187	5,300,000	4
<b>Total</b>	<b>205,230,866</b>	<b>1,825</b>	<b>5,450,000</b>	<b>6</b>

The number of holders holding less than a marketable parcel of 45,455 fully paid ordinary shares as at 19 March 2015 was 1,515 holders.

**(b) Twenty largest shareholders**

The names of the 20 largest holders of listed fully paid ordinary shares, the number of listed fully paid ordinary shares each holds and the percentage of capital each holds as at 19 March 2015:

Name	Number	%
1. SINGULAR ENERGY PTY LTD <SINGULAR PETROLEUM A/C>	14,119,078	6.88
2. MR KIERAN JAMES MANN	10,213,540	4.98
3. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	9,787,952	4.77
4. MRS CHARISSA JILLIAN MANN	9,289,210	4.53
5. ACN 144 657 018 PTY LTD	7,000,000	3.41
6. MR DAVID JAMES MASON	6,550,400	3.19
7. MR PETER JAMES MITCHELL LOVE	6,484,148	3.16
8. M E J C PTY LTD <MEJ CLARKE FAMILY A/C>	4,600,000	2.24
9. WANDOO ENERGY LLC	4,480,000	2.18
10. RESOURCE & LAND MANAGEMENT SERVICES PTY LTD <THE SKERMAN SUPER FUND A/C>	4,465,842	2.18
11. MR DAVID FREDERICK OAKLEY <DFO INVESTMENT A/C>	4,174,229	2.03
12. BANJO SUPERANNUATION FUND PTY LTD <P D EVANS PSF A/C>	4,080,000	1.99
13. HOTLAKE PTY LTD <HALCYON SUPER FUND A/C>	4,000,000	1.95
14. J P MORGAN NOMINEES AUSTRALIA LIMITED	3,901,778	1.90
15. BERNE NO 132 NOMINEES PTY LTD <52293 A/C>	3,764,980	1.83
16. HANCROFT PTY LTD	3,207,154	1.56
17. MR ROBERT BROWN DENNIS	3,002,000	1.46
18. MR CONRAN JAMES SMITH	2,682,768	1.31
19. DOUGLAS FINANCIAL CONSULTANTS PTY LTD	2,348,798	1.14
20. SHANRAY PTY LTD	2,190,002	1.07
<b>TOTAL</b>	<b>110,341,879</b>	<b>53.76</b>

**ADDITIONAL INFORMATION (continued)****(c) Substantial shareholders**

The name of the substantial holder in the Company and the number of equity securities to which the substantial holder and the substantial holder's associates have a relevant interest, as disclosed in the substantial holding notice given to the Company as at 19 March 2015:

<b>Name</b>	<b>Number held</b>	<b>%</b>
MR PETER JAMES MITCHELL LOVE	22,298,223	10.9
<i>as disclosed by notice of initial substantial holder dated 13 May 2013</i>	<b>22,298,223</b>	<b>10.9</b>
<b>TOTAL</b>		

**(d) Unlisted securities**

The names of holders of 20% or more of unlisted options and the number or unlisted options each holds as at 19 March 2015

<b>Name</b>	<b>Number</b>	<b>%</b>
CLIFFORD SIDNEY FOSS JNR	1,200,000	44.72
WANDOO ENERGY LLC	1,200,000	44.72
<b>TOTAL</b>	<b>2,400,000</b>	<b>89.44</b>

**(e) Voting rights of ordinary fully paid shares**

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

**(f) Voting rights of unlisted options**

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

**(g) Escrowed or restricted securities**

There are no restricted securities or securities subject to voluntary escrow as at 25 March 2014.

**(h) On-market buy-back**

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

**(i) Business Objectives**

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



## GLOSSARY

<b>1P</b>	proved (developed plus undeveloped) reserves in accordance with SPE-PRMS
<b>2P</b>	proved plus probable reserves in accordance with the SPE-PRMS
<b>3P</b>	proved, probable and possible reserves in accordance with SPE-PRMS
<b>A\$</b>	Australian dollars, unless otherwise stated
<b>AASB</b>	Australian Accounting Standards Board or, if the context requires, an Australian Accounting Standard adopted by it
<b>Acquisition Scheme</b>	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
<b>AGM</b>	Annual General Meeting
<b>Aschere</b>	Aschere Energy LLC, a US-based oil & gas exploration and production company
<b>ASIC</b>	Australian Securities and Investments Commission
<b>ASX</b>	ASX Limited (ACN 008 624 691) or, if the context requires, the securities market operated by it
<b>ASX Principles and Recommendations</b>	ASX Corporate Governance Principles and Recommendations (Second Edition)
<b>bbl</b>	barrels
<b>bcf</b>	billion cubic feet
<b>bcfe</b>	billion cubic feet equivalent
<b>boe</b>	barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 barrel of oil equivalent)
<b>bopd</b>	barrels of oil per day
<b>bwpd</b>	barrels of water per day
<b>CEO</b>	Chief Executive Officer
<b>Company or Talon</b>	Talon Petroleum Limited (ABN 88 153 229 086)
<b>Constitution</b>	constitution of the Company
<b>Corporations Act</b>	<i>Corporations Act 2001</i> (Cth)
<b>CWI</b>	carried working interest, which is a percentage share of production after payment of all operational costs up to the sale point (being the oil in the tanks or the gas in the gas meter)
<b>Demerger Scheme</b>	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
<b>Director</b>	director of the Company
<b>EFS</b>	Eagle Ford Shale
<b>EFSE</b>	Eagle Ford Shale Exploration, LLC, a US-based oil & gas exploration and production company
<b>ft</b>	feet
<b>Group</b>	Talon and its subsidiaries
<b>IFRS</b>	International Financial Reporting Standards
<b>KMP</b>	any or all (as the context requires) of the key management personnel, as defined in paragraph 9 of AASB 124 <i>Related Party Disclosures</i> dated December 2009
<b>LTI</b>	long term incentive
<b>m</b>	metres
<b>mbbl</b>	thousand barrels
<b>mboe</b>	thousand barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 boe)
<b>mcf</b>	thousand cubic feet
<b>mcfd</b>	thousand cubic feet per day
<b>mcfgpd</b>	thousand cubic feet of gas per day
<b>mmbo</b>	million barrels of oil
<b>mmboe</b>	million barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 boe)
<b>mmcf</b>	million cubic feet
<b>NSAI</b>	Netherland, Sewell & Associates, Inc.
<b>NGL</b>	natural gas liquids
<b>NRI</b>	net revenue interest or share of production after all burdens such as royalties have been deducted from the WI
<b>O'Benco</b>	operational arm of O'Brien
<b>O'Brien</b>	O'Brien Energy Company, a private oil and gas exploration and production company located in Shreveport, Louisiana, USA
<b>ORRI</b>	overriding royalty interest, which is a percentage share of production free from all costs of drilling and producing

<b>PGA</b>	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)
<b>Phase One locations</b>	lower risk locations based on seismic analysis
<b>Q</b>	year quarter
<b>SEA</b>	Sundance Energy Australia Limited (ABN 76 112 202 883)
<b>SIA</b>	Scheme Implementation Agreement dated 13 November 2012 between SEA and Texon
<b>Share</b>	fully paid ordinary share in the capital of the Company
<b>SPE-PRMS</b>	Petroleum Resources Management System 2007, published by the Society of Petroleum Engineers
<b>STI</b>	short term incentive
<b>Terrace</b>	Terrace STS LLC, a Canadian based oil & gas exploration and production company
<b>Texon</b>	Texon Petroleum Ltd (ABN 24 119 737 772)
<b>Texoz</b>	Texoz E&P II, Inc.
<b>TVD</b>	True Vertical Depth
<b>US\$</b>	U.S. dollars, unless otherwise stated
<b>VWAP</b>	volume weighted average price
<b>Wandoo</b>	Wandoo Energy, LLC, a USA based company associated with Mr David Mason, a Director of Talon, who is the majority shareholder in Wandoo
<b>WI</b>	working interest, a cost bearing interest of an oil and gas project

### Qualified evaluator statement

The reserves estimates shown herein have been independently evaluated by Netherland, Sewell & Associates, Inc. (NSAI), a worldwide leader of petroleum property analysis for industry and financial organizations and government agencies. NSAI was founded in 1961 and performs consulting petroleum engineering services under Texas Board of Professional Engineers Registration No. F-2699. Within NSAI, the technical person primarily responsible for preparing the estimates set forth in the NSAI reserves report incorporated herein is Mr Neil H. Little. Mr Little has been practicing consulting petroleum engineering at NSAI since 2011. Mr Little is a Licensed Professional Engineer in the State of Texas (No. 117966) and has over 12 years of practical experience in petroleum engineering, with over 5 years' experience in the estimation and evaluation of reserves. He graduated from Rice University in 2002 with a Bachelor of Science Degree in Chemical Engineering. Mr Little meets or exceeds the education, training, and experience requirements set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers. Mr Little is proficient in judiciously applying industry standard practices to engineering and geoscience evaluations as well as applying ASX and other industry reserves definitions and guidelines. The statements contained in this Annual Report about the Company's reserves estimates have been approved, and are based on, and fairly represent, information and supporting documentation prepared by, or under the supervision of, Mr Little. Mr Little is a member of the Society of Petroleum Engineers, and is qualified in accordance with ASX Listing Rules and has consented to the inclusion of the estimates and the supporting information in the form and context in which they appear.

## CORPORATE DIRECTORY

### Directors

Peter Love (Chairman)  
Clifford S. Foss, Jr. (CEO, Managing Director and President)  
Peter Evans (Non-Executive Director)

### Registered office

Talon Petroleum Limited  
ABN 88 153 229 086  
Suite 2, 24 Bolton Street  
Newcastle NSW Australia 2300

### Company Secretary

Andrew Crawford

### US office

Texoz E&P I, Inc.  
20445 State Highway 249, Suite 280  
Houston, Texas, 77070, USA  
Telephone: +1 281 419 4976  
Fax: +1 281 419 4930

### Share Registry

Computershare Investor Services Pty Ltd  
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West End QLD Australia 4101  
Telephone:  
(within Australia): 1300 850 505  
(international): +61 3 9415 4000  
[www.computershare.com.au](http://www.computershare.com.au)

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### Solicitors

McCullough Robertson  
Level 11  
66 Eagle Street  
Brisbane QLD Australia 4000

### Home Exchange: Sydney

Australian Stock Exchange (code: TPD)  
20 Bridge Street  
Sydney NSW Australia 2000

### Bankers

Australia and New Zealand Banking,  
Group Limited  
Level 3, 324 Queen Street  
Brisbane QLD Australia 4000

### Auditor

KPMG  
Level 16, Riparian Plaza  
71 Eagle Street  
Brisbane QLD Australia 4000