

Talon Petroleum Limited

ABN 88 153 229 086

Interim financial report for the six months ended 30 June 2015

Contents

DIRECTORS' REPORT	3
LEAD AUDITOR'S INDEPENDENCE DECLARATION	6
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	7
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	8
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	9
CONSOLIDATED STATEMENT OF CASH FLOWS	10
CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS	11
DIRECTORS' DECLARATION	17
INDEPENDENT AUDITOR'S REVIEW REPORT	18
GLOSSARY	20

About this report

This report is a summary of Talon Petroleum Limited's operations, activities and financial position for the six months ended 30 June 2015. It complies with Australian reporting requirements. An electronic version of this report is available at www.talonpetroleum.com.au. Printed reports are also available from Talon on request.

About Talon Petroleum Limited

Talon Petroleum Limited is a Texas and Gulf Coast focused exploration and appraisal company listed on the ASX (ASX code: TPD). Additional information is available on Talon's website: www.talonpetroleum.com.au.

DIRECTORS' REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2015

The Directors present their report together with the consolidated financial statements of Talon Petroleum Limited ("the Company" or "Talon") and of the Group, being the Company and the entities it controlled at the end of, or during, the six months ended 30 June 2015 and the auditor's review report thereon.

DIRECTORS

The following persons were directors of Talon Petroleum Limited during the whole of the half-year and up to the date of this report:

Peter Love
Peter Evans

Andrew Crawford was appointed as a director 10 August 2015 and continues in office at the date of this report.

Clifford S. Foss Jr was a director from the beginning of the half-year until his retirement 10 August 2015.

REVIEW AND RESULTS OF OPERATIONS

The directors provide the following comments on the operations of the Group for the half-year ended 30 June 2015.

Leases

MR Olmos Project, McMullen County, Texas

During the half-year production continued from the two operated vertical wells and one operated horizontal well located at the Group's MR Olmos project in South Texas.

As announced on 5 February 2014, certain parties held an option to acquire collectively a 50% working interest in approximately 3,600 acres held by the Group on the MR Olmos project in McMullen County, Texas. This option expired on 10 January 2015. Due to the highly uncertain oil price environment at the time, the option was not exercised by either party. As a result, the Group retained a 100% working interest in these 3,600 acres in addition to a 10% working interest in the 199 acre Quintanilla lease.

The Group continues to market its MR Olmos acreage.

Coolangatta Project, Colorado County, Texas

During the December 2014 quarter, Talon caused the Eagle Lake Gas Unit 1 well (ELGU #1) 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 Corporation, 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.

During the June 2015 quarter, site work at the Coolangatta project was successfully completed to allow the first production from the ELGU #1 which occurred subsequent to the end of the June 2015 half-year period.

Roundhouse Project, Navarro County, Texas

During the half-year the Group non-consented to work on the Bonner 1H well. As a result the Group relinquished its interest in these leases.

Wandoo Agreement

During the half-year the Group announced the termination of the Prospect Generation Agreement (PGA) with Wandoo Energy LLC and John Armstrong. As part of the agreement for early termination, Talon transferred to Wandoo the Dunsborough prospect (approximately 45 acres in Jackson County, South Texas), the Sunshine prospect (leases were awaiting assignment in DeWitt County, South Texas) and three unleased Middle Wilcox

prospects. The termination eliminated monthly payments of approximately USD 27,000 otherwise required under the PGA for the balance of 2015.

Production

Production for the half-year is detailed in the table below.

Half-year ended 30 June 2015	
Gross	
Gas (mcf)	82,702
Oil (bbl)	40,322
Total (boe ⁽²⁾)	54,106
Net (Talon share) ⁽¹⁾	
Gas (mcf)	5,655
Oil (bbl)	3,996
Total (boe ⁽²⁾)	4,939

⁽¹⁾ Talon's beneficial NRI share (after royalties).

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

Financial results

During the half-year the group delivered a loss before income tax of \$1,222,346 (2014: \$3,870,741) after recognising impairment expense of \$96,422 (2014: \$2,960,659) and loss on lapse of lease of \$122,192 (2014: \$nil). Oil and gas sales for the half-year totalled \$279,224 (2014: \$288,244).

Corporate

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 continued in a transitional role as Managing Director until his retirement from the board. Mr Crawford replaced Mr Foss as a director of the Company on 10 August 2015.

On 24 April 2015 Talon announced the successful completion of the 2 for 9 non-renounceable entitlement offer at \$0.012 which raised approximately \$500,000 after issue costs. The Entitlement Offer was fully underwritten by Trojan Investment Management Pty Ltd ACN 102 972 501.

On 18 May 2015 Talon announced the completion of the small lot sale process for unmarketable parcels of shares. Existing shareholders acquired 9,776,321 shares under the small lot sale facility. As a result, the number of Talon shareholders was reduced by 1,203 to approximately 550 holders.

To simplify the Company's capital structure for the purpose of any corporate level transactions (such as a takeover of the Company), 2,500,002 options to acquire ordinary shares exercisable at \$0.0675 were cancelled by the Company during the quarter. Shareholders had previously approved the cancellation of these options at the Company's AGM held 28 April 2015.

DIVIDENDS

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

SUBSEQUENT EVENTS

On 3 September 2015 the group announced it had executed a Letter of Intent to sell its interest in the ELGU #1 well and remaining interest in the Coolangatta Project, and its interest in the Scherer #2 well on the Angourie Project. The group stated a non-binding offer of US\$630,000 had been received for these assets with Talon targeting a closing period of 60 days.

On 3 September 2015 the group entered into a financing arrangement with an unrelated party to provide a \$200,000 unsecured loan for a period of five months at which time it is intended that the loan will be repaid from the proceeds of an asset sale or repaid with funds from a capital raise. The loan carries an interest rate of 15% and had a \$5,000 establishment fee.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's independence declaration under section 307C of the Corporations Act is set out on page 6 and forms part of the Directors' Report for the six months ended 30 June 2015.

ROUNDING OF AMOUNTS

The group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of directors.



Peter Love

Chairman

Brisbane, Queensland

7 September 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 review for the interim period ended 30 June 2015 there have been:

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

KPMG

Stephen Board
Partner

Brisbane
7 September 2015

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2015**

	Note	Six months ended 30 Jun 2015 \$	Six months ended 30 Jun 2014 \$
Revenue		279,224	288,244
Cost of oil and gas sold		(289,390)	(217,740)
Net gain on sale of oil and gas		(10,166)	70,504
Other income		23,782	8,327
Employee benefits		(370,588)	(355,856)
Administrative and other expenses		(595,538)	(588,888)
Exploration and evaluation expenditure		(38,770)	(47,075)
Impairment expense	3	(96,422)	(2,960,659)
Loss on lapse of lease	4	(122,192)	-
Results from operating activities		(1,209,894)	(3,873,647)
Finance income		2,200	2,906
Finance costs		(14,652)	-
Net finance costs		(12,452)	2,906
Profit / (loss) before income tax		(1,222,346)	(3,870,741)
Income tax expense		-	-
Profit / (loss) for the period		(1,222,346)	(3,870,741)
Other comprehensive income			
Foreign exchange translation differences, net of tax		139,046	(520,008)
Total comprehensive income / (loss) attributable to owners of the company		(1,083,300)	(4,390,749)
		Cents	Cents
Basic earnings / (loss) per share		(0.5)	(3.4)
Diluted earnings / (loss) per share		(0.5)	(3.4)

The condensed notes on pages 11 to 16 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

	Note	30 Jun 2015	31 Dec 2014
		\$	\$
Current assets			
Cash and cash equivalents		311,272	1,042,501
Trade and other receivables		130,963	177,389
Prepayments		48,003	65,472
Total current assets		490,238	1,285,362
Non-current assets			
Security deposits		71,652	60,975
Property, plant and equipment		-	12,975
Oil and gas properties	4	1,856,324	1,457,059
Exploration and evaluation assets	5	25,668	618,669
Total non-current assets		1,953,644	2,149,678
TOTAL ASSETS		2,443,882	3,435,040
Current liabilities			
Trade and other payables	6	(127,002)	(598,048)
Employee benefits		(87,661)	(92,877)
Total current liabilities		(214,663)	(690,925)
Non-current liabilities			
Provisions		(552,083)	(517,068)
Total non-current liabilities		(552,083)	(517,068)
TOTAL LIABILITIES		(766,746)	(1,207,993)
NET ASSETS		1,677,136	2,227,047
Equity			
Issued capital	7	33,824,018	33,294,835
Reserves		2,589,845	2,564,569
Retained earnings		(34,736,727)	(33,632,357)
TOTAL EQUITY		1,677,136	2,227,047

The condensed notes on pages 11 to 16 are an integral part of these consolidated interim financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2015**

Consolidated	Note	Share capital \$	Share options reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2015		33,294,835	115,915	2,448,654	(33,632,357)	2,227,047
Total comprehensive income for the period						
Profit / (loss) for the period		-	-	-	(1,222,346)	(1,222,346)
Other comprehensive income						
Foreign exchange translation differences		-	-	139,046	-	139,046
Total comprehensive income for the period		-	-	139,046	(1,222,346)	(1,083,300)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued	7	532,587	-	-	-	532,587
Payments to cancel options	7	(3,404)	-	-	-	(3,404)
Share option reserve	7	-	(113,770)	-	117,976	4,206
Balance at 30 June 2015		33,824,018	2,145	2,587,700	(34,736,727)	1,677,136
Balance at 1 January 2014		32,314,548	73,110	2,411,195	(21,590,429)	13,208,424
Total comprehensive income for the period						
Profit / (loss) for the period		-	-	-	(3,870,741)	(3,870,741)
Other comprehensive income						
Foreign exchange translation differences		-	-	(520,008)	-	(520,008)
Total comprehensive income for the period		-	-	(520,008)	(3,870,741)	(4,390,749)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued		-	-	-	-	-
Share option reserve		-	25,538	-	-	25,538
Balance at 30 June 2014		32,314,548	98,648	1,891,187	(25,461,170)	8,843,213

Amounts are stated net of tax.

The condensed notes on pages 11 to 16 are an integral part of these consolidated interim financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2015**

	Six months ended 30 Jun 2015 \$	Six months ended 30 Jun 2014 \$
Cash flows used in operating activities		
Cash receipts from customers	382,915	320,102
Cash paid to suppliers and employees	(1,267,236)	(845,347)
Interest received	2,200	2,905
Net cash used in operating activities	(882,121)	(522,340)
Cash flows used in investing activities		
Exploration, evaluation and development assets	(428,888)	(1,570,608)
Proceeds from short term financial assets	-	1,158,046
Proceeds from sale of property, plant and equipment	8,046	4,370
Net cash used in investing activities	(420,842)	(408,192)
Cash flows from financing activities		
Proceeds from issue of shares	550,050	-
Share issue costs	(29,963)	-
Payments for options cancelled	(3,404)	-
Proceeds from borrowings	200,000	-
Repayment of borrowings	(200,000)	-
Net cash from financing activities	516,683	-
Net increase/(decrease) in cash and cash equivalents	(786,280)	(930,532)
Cash and cash equivalents at 1 January	1,042,501	2,707,655
Effect of exchange rate fluctuations on cash held	55,051	(87,056)
Cash and cash equivalents at 30 June	311,272	1,690,067

The condensed notes on pages 11 to 16 are an integral part of these consolidated interim financial statements.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Note

- 1 Reporting entity
 - 2 Significant accounting policies
 - 3 Impairment expense
 - 4 Oil and gas properties
 - 5 Exploration and evaluation assets
 - 6 Trade and other payables
 - 7 Share capital
 - 8 Capital and other commitments
 - 9 Related parties
 - 10 Subsequent events
-

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. REPORTING ENTITY

Talon Petroleum Limited (the “Company” or “Talon”) is a company domiciled in Australia whose shares are publicly listed on the ASX (ASX code: TPD). The consolidated interim financial report of the Company as at and for the six months ended 30 June 2015 comprises the Company and its subsidiaries (together referred to as the “Group”).

The consolidated annual financial report of the Group as at and for the period ended 31 December 2014 is available upon request from the Company’s registered office at Suite 2, 24 Bolton Street, Newcastle NSW 2300 or at www.talonpetroleum.com.au.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated financial report of the Group as at and for the period ended 31 December 2014.

This consolidated interim financial report was approved by the Board of Directors on 7 September 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 \$1,222,346 in the half year ended 30 June 2015 and has accumulated losses of \$34,736,727 as at 30 June 2015. The Group has cash on hand of \$311,272 at 30 June 2015 and used \$1,306,367 of cash from operating and financing activities and the cancellation of options during the six months ended 30 June 2015. These conditions give rise to a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern.

The ongoing operation of the Group is dependent upon:

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

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 sale of assets or 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.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****c. New accounting standards and interpretations**

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the period ended 31 December 2014.

d. Estimates

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

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the period ended 31 December 2014.

e. Segment reporting

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

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 \$1,953,644 and Australia \$nil (31 December 2014: USA \$2,141,748 and Australia \$7,930).

Seasonality and cyclicity

The Group's gas prices received may be indirectly affected by seasonal impacts on demand and other factors including storage levels and well location in relation to infrastructure. Oil prices are determined globally and are impacted by world events, storage, production and infrastructure. Seasonality has not had a material impact on the Group's operations in the interim period.

3. IMPAIRMENT EXPENSE

	Six months ended 30 Jun 15 \$	Six months ended 30 Jun 14 \$
Impairment expense	(96,422)	(2,960,659)

At 30 June 2015 the Group evaluated the carrying values of its oil and gas properties and exploration and evaluation assets and found that the carrying value of certain assets was higher than the assessed recoverable amount. The Group impaired the assets accordingly:

Oil and gas properties, net of depreciation \$28,290 (2014: \$96,353) (See Note 4).

Exploration and evaluation assets \$68,132 (2014: \$2,864,306) (See Note 5).

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)**4. OIL AND GAS PROPERTIES**

	Six Months ended 30 Jun 15 \$	Twelve months ended 31 Dec 14 \$
Oil and gas properties		
Cost		
Balance at beginning of period	2,722,569	2,488,244
Additions	28,290	-
Transferred from exploration and evaluation expenditure	634,896	1,597,910
Impairment expense	(28,290)	(1,583,369)
Loss on lapse of lease	(122,192)	-
Foreign exchange translation	182,882	219,784
Balance at end of period	3,418,155	2,722,569
Accumulated depletion		
Balance at 1 January	(1,265,510)	(779,496)
Depletion expense	(208,628)	(378,349)
Foreign exchange translation	(87,693)	(107,665)
Balance at end of period	(1,561,831)	(1,265,510)
Carrying amounts		
At 1 January	1,457,059	1,708,748
At end of period	1,856,324	1,457,059

During the period the Group transferred the Eagle Lake Unit # 1 well on the Coolangatta prospect from exploration and evaluation assets to oil and gas properties following successful testing.

During the period the Group elected to release acreage considered uneconomic as lease terms expired and elected not to participate in expenditure on certain wells which was also deemed uneconomic resulting in a charge of \$122,192 to loss on lapse of lease.

Additionally, at 30 June 2015 the Group evaluated the carrying values of oil and gas properties in comparison to their estimated recoverable amounts as based on reserves valuations prepared by independent third party reserve engineers at 31 December 2014. This assessment resulted in the impairment of \$28,290 of additional expenditure which was incurred in the period.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)**5. EXPLORATION AND EVALUATION ASSETS**

	Six months ended 30 Jun 15 \$	Twelve months ended 31 Dec 14 \$
Balance at 1 January	618,669	8,550,320
Acquisitions	-	1,385,625
Additions	68,206	1,011,939
Transferred to oil and gas properties	(634,896)	(1,597,910)
Impairment expense	(68,132)	(9,075,788)
Impairment reversals	-	452,483
Sale of exploration and evaluation assets	-	(41,430)
Foreign exchange translation	41,821	(66,570)
Balance at end of period	25,668	618,669

During the period the Group determined that the Eagle Lake Unit # 1 well on the Coolangatta prospect was technically feasible and commercially viable and should be transferred to oil and gas properties. Prior to the transfer, impairment testing was performed by comparing the carrying value of the well to its estimated recoverable amount as based on reserves valuation prepared by an independent third party reserve engineers at 31 December 2014.

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest. As at 30 June 2015 the Group's assessment concluded that no other impairments to exploration and evaluation expenditure were necessary.

6. TRADE AND OTHER PAYABLES

	30 Jun 15 \$	31 Dec 14 \$
Trade and other payables	127,002	598,048

As at 31 December 2014 trade and other payables included \$257,590 owed by the Group for its share of expenses related to the Quintanilla OL 1H well, \$44,801 of expenses related to the ELGU #1 well and \$78,505 of expenses related to the Wandoo PGA. These expenses were paid during the current period.

7. SHARE CAPITAL

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

	Six months ended 30 Jun 15 Ordinary shares (number)	Twelve months ended 31 Dec 14 Ordinary shares (number)
On issue at 1 January	205,230,866	102,135,433
Issue of ordinary shares 4 April 2014	-	480,000
Issue of ordinary shares 25 August 2014	-	102,615,433
Issue of ordinary shares 30 March 2015	1,041,667	-
Issue of ordinary shares 28 April 2015	45,837,504	-
On issue at end of period – fully paid	252,110,037	205,230,866

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)**7. SHARE CAPITAL (continued)****Issuance of ordinary shares**

On 30 March 2015 the Company issued 1,041,667 ordinary shares in satisfaction of establishment fees and interest in advance under a short term loan facility. On 28 April 2015 the Company issued 45,837,504 fully paid ordinary shares under the fully underwritten 2 for 9 pro-rata non-renounceable entitlement offer at \$0.012.

Total issued ordinary shares as at 30 June 2015 were 252,110,037.

All issued ordinary shares are fully paid.

Unlisted options

During the period 2,766,662 unlisted options to acquire ordinary shares exercisable at \$0.0675 lapsed due to the cessation of employment of various employees and contractors following the Company's restructuring process. During the period, 2,500,002 options to acquire ordinary shares exercisable at \$0.0675 were cancelled by the Company. Option holders were paid \$3,404 in aggregate. The cancellation resulted in a decrease of the options reserve in the amount of \$113,770 and a decrease in accumulated losses of \$117,976 for previously recognised expenses. Total unlisted options to acquire ordinary shares in the Company exercisable at \$0.0675 on issue at 30 June 2015 were 183,336.

8. CAPITAL AND OTHER COMMITMENTS

During the half-year ended 30 June 2015, the Prospect Generation Agreement with Wandoo Energy and John Armstrong was terminated. Also, sub-lease arrangements were successfully negotiated on both the Australian office premises and US office premises significantly reducing the net amount of these commitments.

9. RELATED PARTIES

Box One Corporate Pty Ltd, a Company controlled by Mr A Crawford, receives payment for the provision of Company Secretary and accounting services to the Group. The agreement for these services was based on normal commercial terms and conditions.

There were no other related party transactions in the half-year period.

10. SUBSEQUENT EVENTS

On 3 September 2015 the group announced it had executed a Letter of Intent to sell its interest in the ELGU #1 well and remaining interest in the Coolangatta Project, and its interest in the Scherer #2 well on the Angourie Project. The group stated a non-binding offer of US\$630,000 had been received for these assets with Talon targeting a closing period of 60 days.

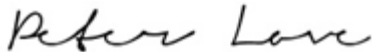
On 3 September 2015 the group entered into a financing arrangement with an unrelated party to provide a \$200,000 unsecured loan for a period of five months at which time it is intended that the loan will be repaid from the proceeds of an asset sale or repaid with funds from a capital raise. The loan 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 financial statements and notes set out on pages 7 to 16 are in accordance with the *Corporations Act 2001* (Cth) including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the six month period ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth); and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Peter Love
Chairman
Brisbane, Queensland
7 September 2015



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

We have reviewed the accompanying interim financial report of Talon Petroleum Limited, which comprises the consolidated statement of financial position as at 30 June 2015, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the interim period's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2015 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Talon Petroleum Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Conclusion

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty regarding continuation as a going concern

Without modifying our conclusion, we draw attention to note 2(b) 'Going concern' in the interim financial report. The conditions disclosed in note 2(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 interim financial report.

KPMG

KPMG

Stephen Board
Partner

Brisbane
7 September 2015

GLOSSARY

AASB	Australian Accounting Standards Board or, if the context requires, an Australian Accounting Standard adopted by it
AGM	Annual General Meeting
ASX	ASX Limited (ACN 008 624 691) or, if the context requires, the securities market operated by it
bbl	barrels
bcf	billion cubic feet
bcpd	barrels of condensate per day
boe	barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 barrel of oil equivalent)
bopd	barrels of oil per day
Company or Talon Corporations Act	Talon Petroleum Limited (ABN 88 153 229 086) <i>Corporations Act 2001</i> (Cth)
Director	director of the Company
ft	feet
Group	Talon and its subsidiaries
m	meters
mbbl	thousand barrels
mboe	thousand barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 boe)
mcf	thousand cubic feet
mcf(p)d	thousand cubic feet per day
mcfg(p)d	thousand cubic feet of gas per day
MD	Measured Depth
mmbo	million barrels of oil
mmcf	million cubic feet
mmcf(p)d	million cubic feet per day
mmcfg(p)d	million cubic feet of gas per day
NRI	net revenue interest or share of production after all burdens such as royalties have been deducted from the WI
PGA	Prospect Generation Agreement dated on or about 23 June 2006 between Texoz E&P III, Inc., Wandoo and John Dennis Armstrong (Talon's previous Chairman)
psi	pounds per square inch
Share	fully paid ordinary share in the capital of the Company
TD	Total Depth
TVD	True Vertical Depth
WI	working interest, a cost bearing interest of an oil and gas project