

Talon Petroleum Limited

ABN 88 153 229 086

Interim financial report for the six months ended 30 June 2016

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About this report

This report is a summary of Talon Petroleum Limited's operations, activities and financial position for the six months ended 30 June 2016. 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 2016

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 2016 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

REVIEW AND RESULTS OF OPERATIONS

The directors provide the following comments on the operations of the Group for the half-year ended 30 June 2016.

Oil and gas acreage

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.

Coolangatta Project, Colorado County, Texas

During January 2016 the Company received the balance of proceeds from the US\$630,000 sale of its interest in the ELGU #1 well and remaining interest in the Coolangatta Project.

Production

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

Half-year ended 30 June 2016	
Gross	
Gas (mcf)	19,798
Oil (bbl)	8,926
Total (boe ⁽²⁾)	12,286
Net (Talon share) ⁽¹⁾	
Gas (mcf)	1,460
Oil (bbl)	1,207
Total (boe ⁽²⁾)	1,450

⁽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 after income tax of \$292,330 (1H 2015: \$1,222,346). Oil and gas sales for the half-year totalled \$59,089 (1H 2015: \$279,224).

Corporate

The Company's Annual General Meeting was held on 23 May 2016 with all resolutions being passed.


DIVIDENDS

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

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's independence declaration under section 307C of the Corporations Act is set out on page 5 and forms part of the Directors' Report for the six months ended 30 June 2016.

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

A handwritten signature in black ink, appearing to read "Peter Love". The signature is written in a cursive, flowing style.

Peter Love

Chairman

Brisbane, Queensland

2 September 2016



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 2016 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.

A handwritten signature in black ink that reads 'KPMG' in a cursive, stylized font.

KPMG

A handwritten signature in black ink that appears to read 'J Adams' in a cursive, stylized font.

Jason Adams
Partner

Brisbane
2 September 2016

**CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	Six months ended 30 Jun 2016 \$	Six months ended 30 Jun 2015 \$
Revenue	59,089	279,224
Cost of oil and gas sold	(85,227)	(289,390)
Net gain on sale of oil and gas	(26,138)	(10,166)
Other income	56,761	23,782
Employee benefits	(41,088)	(370,588)
Administrative and other expenses	(245,738)	(595,538)
Exploration and evaluation expenditure	-	(38,770)
Impairment expense	(41,133)	(96,422)
Loss on lapse of lease	-	(122,192)
Results from operating activities	(297,336)	(1,209,894)
Finance income	5,199	2,200
Finance costs	(193)	(14,652)
Net finance costs	5,006	(12,452)
Profit / (loss) before income tax	(292,330)	(1,222,346)
Income tax expense	-	-
Profit / (loss) for the period	(292,330)	(1,222,346)
Other comprehensive income		
Foreign exchange translation differences, net of tax	4,726	139,046
Total comprehensive income / (loss) attributable to owners of the company	(287,604)	(1,083,300)
	Cents	Cents
Basic earnings / (loss) per share	(0.1)	(0.5)
Diluted earnings / (loss) per share	(0.1)	(0.5)

The condensed notes on pages 10 to 14 are an integral part of these consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Note	30 Jun 2016	31 Dec 2015
		\$	\$
Current assets			
Cash and cash equivalents		569,096	667,168
Trade and other receivables		502	144,277
Prepayments		52,230	57,099
Total current assets		621,828	868,544
Non-current assets			
Security deposits		67,331	68,437
Oil and gas properties	3	324,783	363,126
Exploration and evaluation assets	4	-	41,133
Total non-current assets		392,114	472,696
TOTAL ASSETS		1,013,942	1,341,240
Current liabilities			
Trade and other payables		(31,034)	(61,704)
Total current liabilities		(31,034)	(61,704)
Non-current liabilities			
Provisions		(549,421)	(558,445)
Total non-current liabilities		(549,421)	(558,445)
TOTAL LIABILITIES		(580,455)	(620,149)
NET ASSETS		433,487	721,091
Equity			
Issued capital	5	33,838,250	33,838,250
Reserves		2,674,821	2,670,095
Retained earnings		(36,079,584)	(35,787,254)
TOTAL EQUITY		433,487	721,091

The condensed notes on pages 10 to 14 are an integral part of these consolidated interim financial statements.

**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

Consolidated	Share capital \$	Share options reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2016	33,838,250	2,145	2,667,950	(35,787,254)	721,091
Total comprehensive income for the period					
Profit / (loss) for the period	-	-	-	(292,330)	(292,330)
Other comprehensive income					
Foreign exchange translation differences	-	-	4,726	-	4,726
Total comprehensive income for the period	-	-	4,726	(292,330)	(287,604)
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Balance at 30 June 2016	33,838,250	2,145	2,672,676	(36,079,584)	433,487
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	532,587	-	-	-	532,587
Payments to cancel options	(3,404)	-	-	-	(3,404)
Share option reserve	-	(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

The condensed notes on pages 10 to 14 are an integral part of these consolidated interim financial statements.

**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	Six months ended 30 Jun 2016 \$	Six months ended 30 Jun 2015 \$
Cash flows used in operating activities		
Cash receipts from customers	154,031	382,915
Cash paid to suppliers and employees	(381,261)	(1,267,236)
Interest received	5,199	2,200
Interest paid	(193)	-
Net cash used in operating activities	(222,224)	(882,121)
Cash flows used in investing activities		
Exploration, evaluation and development expenditure	-	(428,888)
Proceeds from sale of oil and gas properties	121,115	-
Proceeds from sale of property, plant and equipment	-	8,046
Net cash used in investing activities	121,115	(420,842)
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	(101,109)	(786,280)
Cash and cash equivalents at 1 January	667,168	1,042,501
Effect of exchange rate fluctuations on cash held	3,037	55,051
Cash and cash equivalents at 30 June	569,096	311,272

The condensed notes on pages 10 to 14 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 Oil and gas properties
 - 4 Exploration and evaluation assets
 - 5 Share capital
 - 6 Related parties
-

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 2016 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 2015 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 2015.

This consolidated interim financial report was approved by the Board of Directors on 2 September 2016.

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 \$292,330 in the half year ended 30 June 2016 and has accumulated losses of \$36,079,584 as at 30 June 2016. The Group has cash on hand of \$569,096 at 30 June 2016 and used \$222,224 of cash from operating activities during the six months ended 30 June 2016. 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 selling producing assets to generate cash inflows; and/or
- the Group raising additional funding from shareholders or other parties; and/or
- 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.

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 2015.

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 2015.

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 \$392,114 and Australia \$nil (31 December 2015: USA \$472,696 and Australia \$nil).

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.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)**3. OIL AND GAS PROPERTIES**

	Six Months ended 30 Jun 16 \$	Twelve months ended 31 Dec 15 \$
Oil and gas properties		
Cost		
Balance at beginning of period	2,024,254	2,722,569
Net disposals	-	(823,631)
Transferred from exploration and evaluation expenditure	-	634,896
Impairment expense	-	(783,210)
Impairment reversal	-	25,762
Loss on lapse of lease	-	(122,192)
Foreign exchange translation	(32,710)	370,060
Balance at end of period	1,991,544	2,024,254
Accumulated depletion		
Balance at 1 January	(1,661,128)	(1,265,510)
Depletion expense	(32,957)	(256,816)
Accumulated depletion on disposals	-	28,427
Foreign exchange translation	27,324	(167,229)
Balance at end of period	(1,666,761)	(1,661,128)
Carrying amounts		
At 1 January	363,126	1,457,059
At end of period	324,783	363,126

4. EXPLORATION AND EVALUATION ASSETS

	Six Months ended 30 Jun 16 \$	Twelve months ended 31 Dec 15 \$
Balance at 1 January	41,133	618,669
Transferred to oil and gas properties	-	(634,896)
Additions	-	82,643
Impairment expense	(41,133)	(68,132)
Foreign exchange translation	-	42,849
Balance at end of period	-	41,133

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)**5. SHARE CAPITAL**

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

	Six months ended 30 Jun 16	Twelve months ended 31 Dec 15
	Ordinary shares (number)	Ordinary shares (number)
On issue at 1 January	253,456,191	205,230,866
Issue of ordinary shares 30 March 2015	-	1,041,667
Issue of ordinary shares 28 April 2015	-	45,837,504
Issue of ordinary shares 10 September 2015	-	1,346,154
On issue at end of period – fully paid	253,456,191	253,456,191

6. 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.

Related party transaction balances:

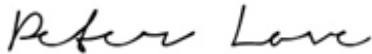
	Transaction values for the six months ended 30 June		Balance outstanding as at 30 June	
	2016	2015	2016	2015
	\$	\$	\$	\$
Administrative and other expenses	35,292	20,427	3,198	3,286

DIRECTORS' DECLARATION

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

- (a) the financial statements and notes set out on pages 6 to 14 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 2016 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

2 September 2016

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 2016, 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 6 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 2016 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 2016 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.

A stylized, handwritten signature of the KPMG firm, rendered in black ink.

KPMG

A handwritten signature in black ink, appearing to read 'J Adams'.

Jason Adams
Partner

Brisbane
2 September 2016

GLOSSARY

1H 2015	Half year period from 1 January 2015 to 30 June 2015
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	Talon Petroleum Limited (ABN 88 153 229 086)
Corporations Act	<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
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
psi	pounds per square inch
Share	fully paid ordinary share in the capital of the Company
WI	working interest, a cost bearing interest of an oil and gas project