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Talon Petroleum Limited

ABN 88 153 229 086

**Annual report
for the year ended
31 December 2016**

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About this report

This report is a summary of Talon's operations, activities and financial position as at 31 December 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.

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CHAIRMAN'S REPORT

Dear Shareholder,

The operating environment for oil producers improved significantly over the course of 2016, with the West Texas Intermediate crude benchmark gaining 48% over the calendar year.

Talon continued to prudently manage its remaining projects and its cash flow over the period. Proceeds from the sale of our Coolangatta and Angourie projects meant that Talon could continue to operate without increasing the number of shares on issue over the course of the year. We continued to manage our petroleum projects in Texas and remained in good standing as an Australian listed entity while minimising the quantum of shareholder funds needed to achieve this. Preservation of the company's capital base is a major priority for your board and we have endeavoured not to increase the equity of the company unnecessarily.

The company's flagship MR Olmos project continued to attract interest from industry peers and discussions with potential acquirers and joint venture partners continued. As at time of writing none of these had progressed to a binding stage. The company continues to explore all options to maximise shareholder value while minimising ongoing operating costs.



Peter Love
Chairman

OPERATIONAL REVIEW

1 Highlights during 2016

Highlights during the year 2016 included:

- Received the balance of proceeds in respect of the sale of the Company's interests in the ELGU #1 well and remaining interest in the Coolangatta Project, and its interest in the Scherer #2 well and remaining interest in the Angourie Project in January 2016.
- Continued production from the Company's Quintanilla OL 1H (horizontal Olmos) well.

2 Oil and gas acreage

Talon's current oil and gas portfolio is made up of a single key asset, its Mosman Rockingham (MR) Olmos Project.

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

The Company holds approximately 3,620 net acres in the MR Olmos Project, McMullen County Texas.

The Company operates two vertical wells (the Wheeler #1 and Hoskins #1) and one horizontal well, (the Quintanilla OL 1H) on this acreage.

During the 2016 year, Talon's Quintanilla OL 1H (horizontal Olmos) produced 12,871 bo gross (949 bo net to Talon) and 34,939 mcfg gross excluding gas used for gas lift (2,577 mcfg net to Talon). Talon's Wheeler #1 (vertical Olmos) produced 1,166 bo gross (831 net to Talon) while Talon's Hoskins Unit #1 (vertical Olmos) produced 672 bo gross (479 bo net to Talon).

Coolangatta Project and Angourie (Yegua) Project

During 4Q15 the Company finalised the sale of its ELGU #1 well and remaining interest in the Coolangatta Project, and its interest in the Scherer #2 well and remaining interest in the Angourie Project for a total sale price of US\$630,000. As at 31 December 2015 US\$531,500 of total consideration of US\$630,000 had been received, with the balance of proceeds received in January 2016.

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 2016 reserves were assessed by Netherland, Sewell & Associates, Inc. ("NSAI") which meets the requirements of qualified petroleum reserves and resources evaluators (refer to page 66 of this Annual Report for the qualified evaluator statement).

Listed in Table 1 below are Talon's net reserves as at 31 December 2016 for total proved (1P), proved + probable (2P), and proved + probable + possible (3P).

Total 3P reserves attributable to Talon's NRI were 47 mboe. The reserves, which are all in conventional reservoirs, relate to the Company's Mosman-Rockingham (MR) Olmos project in the state of Texas.

Table 1 - Talon oil and gas reserves (net to Talon's NRI) as at 31 December 2016

	Oil (mdbl)	NGL (mdbl)	Gas (mmcf)	Total (mboe*)
Proved Developed - Producing	3.9	0.0	4.9	4.7
Proved Developed – Non-producing	23.9	0.0	9.6	25.5
Total Proved (1P)	27.8	0.0	14.5	30.2
Probable	8.1	0.0	4.9	8.9
Proved + Probable (2P)	35.9	0.0	19.4	39.1
Possible	7.0	0.0	4.9	7.8
Proved + Probable + Possible (3P)	42.9	0.0	24.3	46.9

* 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.

Note that table totals may not add due to rounding.

Table 2 presents a comparison of Talon's oil and gas reserves for the periods ending 31 December 2016 and 31 December 2015. The overall change in net reserves is primarily due to the increase in oil, natural gas liquids and gas prices in the United States.

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

	31 Dec 2016 net reserves	31 Dec 2015 net reserves	Difference in net reserves
Proved:			
Oil (mdbl)	28	23	5
Natural gas liquids	0	0	0
Gas (mmcf)	15	10	5
Total proved (mboe)	30	25	5
Probable:			
Oil (mdbl)	8	8	0
Natural gas liquids	0	0	0
Gas (mmcf)	5	4	1
Total probable (mboe)	9	9	0
Possible:			
Oil (mdbl)	7	8	(1)
Natural gas liquids	0	0	0
Gas (mmcf)	5	5	0
Total possible (mboe)	8	9	(1)
Totals:			
Oil (mdbl)	43	40	3
Natural gas liquids	0	0	0
Gas (mmcf)	24	19	5
Total proved, probable and possible (mboe) **	47	43	4

**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) AGM

The Company's AGM was held on 23 May 2016 and all resolutions were passed.

5. Outlook

The Company intends to continue its low cost focus while continuing to seek an appropriate realisation of the Company's remaining key oil and gas assets, its Mosman Rockingham (MR) Olmos Project.

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FINANCIAL REVIEW

The Group's consolidated loss after tax for the year ended 31 December 2016 was \$194,584 (2015: \$2,272,874). The Group reported revenue from operations for 2016 of \$133,730 (2015: \$409,765). Net production for 2016 was 2.6 mboe (2015: 7.4 mboe) primarily due to the Quintanilla OL 1H (horizontal MR Olmos) well.

Depletion of capital costs made up 44.6% of cost of sales (2015: 62.4%).

The Group booked net impairment reversals of \$190,245 (2015: net impairment expense of \$825,580). The net impairment reversals were due to the evaluation of carrying values of certain properties as compared to the estimated recoverable amount based on reserves valuation which increased when compared to the prior period, which was offset by the write off of capitalised exploration and evaluation assets which could not be pursued due to lack of economic viability.

Employee benefits and administrative expenses in 2016 decreased to \$553,055 (2015: \$1,330,357).

The Company's cash position at 31 December 2016 is \$401,374 (31 December 2015: \$667,168).

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BOARD OF DIRECTORS

Peter Love
Non-Executive Chairman
Age 37

Mr Love is a Director of Overlay Capital, an investment and advisory firm. He is an advisor to Byron Energy Limited. He was Vice President of Operations for Maverick Drilling and Exploration Limited from 2008 to 2011. Prior to this, Peter was Assistant Fund Manager at ASX Listed company Trojan Equity Limited. Peter is also a former director of DMX Corporation Limited and holds a Bachelor of Arts (majoring in English and Political Science) from the University of Queensland.

Mr Love is currently Non-Executive Chairman of Intrepid Mines Limited.

Peter Evans
Non-Executive Director
Age 64

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. Mr Evans is serving and has served on a number of other boards over the years. Mr Evans holds a Bachelor of Commerce and Diploma of Advanced Accounting from the University of Queensland.

Mr Evans is currently Non-Executive Director of Intrepid Mines Limited

Andrew Crawford
Non-Executive Director and Company Secretary
Age 34

Mr Crawford has over 15 years chartered and commercial accounting experience having commenced his career with KPMG in 2001. Mr Crawford currently holds the office of company secretary for three ASX listed companies, whilst also delivering specialist accounting, taxation and corporate services to his private clients. Mr Crawford is a Chartered Accountant, Registered Tax Agent, holds a Bachelor of Commerce and Diploma of Financial Services.

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 (3rd Edition)* (“ASX Principles and Recommendations”) in the development of its corporate governance. The Board has assessed the Company’s current practice against these Principles and Recommendations. The Appendix 4G lodged with ASX at the same time as this annual report includes an annexure showing how the Company complies with the ASX Principles and Recommendations as at 29 March 2017. 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 the interests of shareholders.

The following Corporate Governance Statement should be read in conjunction with the Directors’ Report on pages 15 - 25 of this Annual Report.

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;
- until his retirement in August 2015, delegating responsibility for the day to day management of the Company to the Chief Executive Officer (“CEO”);
- because of the Company’s size, until his retirement in August 2015, 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 has no committees in place at 31 December 2016.

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.

Appointment of Directors

Before appointing a person as a director, or putting forward to security holders a candidate for election as a director, the Company undertakes appropriate checks. The Company also provides security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

Company Secretary Accountability

The Company Secretary is accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.

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, 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 recommendation 1.5 of the ASX Principles and Recommendations. The Company may consider adopting a Diversity Policy in the future if it grows in size and complexity.

As at 31 December 2016 there were no women employed by the group.

Performance review of committees and individual board members

As announced to the market 27 February 2015, the Audit Committee and Remuneration Committee 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 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 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/engaged contractors, 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.

Performance review and induction for senior executives

Whilst the CEO and Financial Controller were employed, the Board reviewed their performance against the Company's financial and operational performance on a regular basis. Excluding its directors, the Company did not have any employees during the 2016 year.

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. The Board has undertaken a review of the mix of skills and experience of members on the Board in light of the Company's principal activities and direction and considers the current mix is sufficient to meet the requirements of the Company.

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 page 7 of this Annual Report and on the Company's website. While the Board has undertaken a review of the mix of skills and experience of members on the Board in light of the company's principal activities, due to the Board's current size it has not prepared a Board skills matrix in accordance with recommendation 2.2 setting out the mix of skills and diversity that it currently has or is looking to achieve.

The Board currently comprises three (3) Non-Executive Directors, two of whom are independent.

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 3: Details of Board tenure

Name	Term in office
Peter Love	Over 2 years
Peter Evans	Over 2 years
Andrew Crawford	Over 1 year

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 and Mr Crawford are independent Non-Executive Directors. The Board regularly assesses the independence of each Non-Executive Director. The Board does not believe Mr Crawford's role as Company Secretary impacts his status as an independent 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. As such the Company does not comply with recommendation 2.5.

The role of the Chairman and Managing Director are separate. The Chairman of the Board is Mr Love. The Managing Director, CEO and President was Mr Foss until his retirement 10 August 2015.

The Company does not have a program for professional development for its directors and as such does not comply with recommendation 2.6. Members of the Board are expected to provide for their own professional development.

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 2.1 of the ASX Principles and Recommendations. Until it was disbanded in February 2015, the Remuneration Committee performed the functions of a nomination committee. From February 2015, the functions of a nomination committee are managed by the board, subject to appropriate procedures to manage conflicts of interest. In performing this function, both the Remuneration Committee and Board seek advice of external advisors where considered necessary.

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.

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.

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. 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. As such, the Company does not comply with recommendation 4.1.

In respect of the year ended 31 December 2016, the Non-Executive Chairman and Company Secretary have 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.

While the Company does not have an Audit Committee in place, it safeguards the integrity of corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner by continuing to follow the Company's documented Audit Committee Charter.

As the Company does not have a CEO or CFO, the Board relies on the review of the non-executive directors to ensure that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the non-executive directors view has been formed on the basis of a sound system of risk management and internal control which is operating effectively. As such, the Company does not comply with recommendation 4.2.

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.

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 Non-Executive Chairman 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 Company does not have a formal policy in place to encourage participation at meetings of security holders and as such does not comply with recommendation 6.3.

While the Board has not adopted a formal communications policy in accordance with recommendation 6.2 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 members reviewed this policy in the 2016 year and determined that it was still sound.

The Board is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. Until his retirement on 10 August 2015, the Board required 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. Until his retirement on 10 August 2015 the CEO provided the Board with a risk assessment status on a regular basis. Following the retirement of the CEO, the Board has taken responsibility in relation to risk management, compliance and internal control systems.

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 and as such does not comply with recommendation 7.2. The Board relies on system controls in place within the Company.

The Board does not believe that it has any material exposure to economic, environmental and social sustainability risks not otherwise disclosed to the market. Due to its present size and scale of operations, the Company does not publish a sustainability report.

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, Key Management Personnel and employees.

During the 2014 year the Company established a Remuneration Committee. The role, objectives and responsibilities of the Remuneration Committee are set out in its Charter, which is available in the Corporate Governance section of the Company's website. 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. As such, the Company does not comply with recommendation 8.1.

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.

During the 2016 financial year there was no new grants of equity-based remuneration.

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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 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 year ended 31 December 2016 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
(Non-Executive Chairman)

Peter Evans
(Non-Executive)

Andrew Crawford
(Non-Executive)

Details of the qualifications, experience and responsibilities of the Directors are set out on page 8 of this Annual Report.

2 Company Secretary

Andrew Crawford

3 Principal activities

The principal activity of the Group during the financial year was to develop and produce petroleum resources in the USA. The Group's presentation currency is Australian dollars (\$).

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 6 of this Annual Report.

The Group's consolidated loss after tax for the year ended 31 December 2016 was \$194,584 (2015: \$2,272,874). The Group's total revenue for the year was \$133,730 (2015: \$409,765). At 31 December 2016 the Group's cash balance was \$401,374. The major component of the loss was administrative and other expenses of \$473,055 (2015: 905,825).

5 Dividends

No dividends have been declared, provided for or paid during or since the end of the year ended 31 December 2016.

6 Significant events after the reporting date

On 27 March 2017 the Group entered into a financing arrangement with an unrelated party to provide a \$275,000 unsecured loan for a period of twelve 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.

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

Information on the strategy, prospects and risks of the group is included in the Financial Review and Operations Review sections set out on pages 3 to 6 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 2016.

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 there are 183,336 unissued Shares of the Company under unlisted options with an exercise price of \$0.0675 and an expiry date of 7 March 2019.

Shares issued as a result of the exercise of options

During or since the end of the year ended 31 December 2016, no shares were issued by the Company as a result of the exercise of options.

11 Indemnification and insurance of officers

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 for the year ended 31 December 2016 is set out in Table 5 below:

Table 4: Details of Board meetings attendance

No. of meetings held	Board of Directors	
	A	B
Peter Love	4	4
Peter Evans	4	4
Andrew Crawford	4	4

A = number of meetings attended.

B = number of meetings held during the time the Director held office during the year.

13 Remuneration report – audited

The Directors of the Company present the Remuneration Report for the consolidated entity for the year ended 31 December 2016. 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.

The remuneration report outlines Talon’s key remuneration activities in 2016 and remuneration information pertaining to the Company’s Directors, who are the Key Management Personnel 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 employee changes were made in the comparative year. Excluding Non-Executive Directors, the Company had no employees during the year.

13.1 Remuneration strategy

In the current oil price environment the Company has maintained a continued focus on minimising overhead costs.

As the Company did not employ any Senior Executives or a CEO during the 2016 financial year, and does not employ any Senior Executives or a CEO at the date of this report, the framework for remuneration for Senior Executives or a CEO is not relevant at this time.

Should an opportunity present itself to enhance the value of the Company that requires the appointment of a CEO and/or Senior Executives, the Company will look to promote 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.

13.2 Remuneration governance

As announced to the market 27 February 2015, the Remuneration Committee was 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.

13.3 Link between Company performance and remuneration

2016 Company performance

Talon's financial performance and the resultant consequences for shareholder return are demonstrated in Table 5 below. Both the Board and the Remuneration Committee have taken these results into consideration when making decisions relating to the remuneration of key management personnel during the period.

There were no new LTIs issued to key management personnel during the financial years ended 31 December 2015 or 31 December 2016.

There were no STIs paid to key management personnel during the 2015 or 2016 years.

Table 5: Company performance

	2016	2015	2014	2013	2012
Net profit after tax	\$(194,854)	\$(2,272,874)	\$(12,041,928)	\$(11,524,142)	\$(1,322,434)
Dividends paid or provided	Nil	Nil	Nil	Nil	Nil
Share price at end of year	\$0.01	\$0.01	\$0.01	\$0.04	n/a ¹
Basic earnings per share (cents)	\$0.01	(1.0)	(8.70)	(11.70)	(57.40)
Return on capital employed	(21%)	(178%)	(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.

13.4 CEO remuneration

Overview of earnings

The CEO retired on 10 August 2015 and has not been replaced.

At risk remuneration

Table 6: Relative weightings of remuneration components for CEO¹

	Fixed remuneration	Maximum potential STI	Maximum potential LTI valued at grant date
2016	n/a	n/a	n/a
2015	83%	10%	7%

¹These 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.

13.5 Company Secretary remuneration

Overview of earnings

Fixed remuneration	
What was the fixed remuneration of the Company Secretary in 2016?	The Company Secretary is paid A\$35,400 per annum for Company Secretary services.
Short term incentives	
What was the maximum STI that the Company Secretary could achieve in 2016?	The remuneration package of the Company Secretary does not comprise a fixed STI component.
How were STI payments calculated?	n/a
Long term incentives	
How much annual LTI was granted in 2016?	No LTIs were granted in the 2015 or 2016 year.
What are the applicable vesting conditions?	N/A
Outlook	
Will the Secretary remuneration increase in 2017?	No.
What is the outlook for the Company Secretary remuneration beyond 2017?	The Board expects to review the Company Secretary's remuneration annually in accordance with Talon's remuneration policy and individual employment contracts (as applicable).

At risk remuneration

For 2016, none of the Company Secretary's total potential remuneration was at risk.

Table 7: Relative weightings of remuneration components for the Company Secretary

	Fixed remuneration	Maximum potential STI	Maximum potential LTI valued at grant date
2016	100%	0%	0%
2015	100%	0%	0%

Table 8: Termination provisions for Company Secretary

	Notice period	Payment in lieu of notice
Mr Crawford¹		
Company-initiated termination without cause	0 months	0 months
Company-initiated termination for cause	0 months	0 months
Consultant-initiated termination without cause	0 months	0 months

¹ Mr Crawford acts as Company Secretary on a consultancy arrangement which has no fixed term.

13.6 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 Non-Executive Chairman than to the Non-Executive Directors.

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 2016 is detailed in Table 10.

Table 9: Annual fees for Non-Executive Directors in 2016¹

	Chair	Member
Board	\$40,000 p.a.	\$20,000 p.a.

¹ Fees are shown inclusive of superannuation.

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).

13.7 Detailed remuneration information*Non-Executive Directors 2016 remuneration*

Table 10 presents summarised details of the remuneration for the Non-Executive Directors in 2016 as required under the Corporations Act. There were no additional key management personnel to report for the 2016 year.

Table 10: Non-Executive Directors 2016 remuneration details

Directors and Company Secretary	Year	Short Term			Post-employment		Share-based payments		% of total remuneration at risk subject to:	
		Salary & Directors Fees	Bonus	Non-monetary benefits	Pension and Superannuation	Termination	Options	Total	Performance	Options
		\$	\$	\$	\$	\$	\$	\$	%	%
<i>Peter Love Chairman and Non-Executive Director</i>	2016	36,530	-	-	3,470	-	-	40,000	0%	0%
<i>Peter Evans Non-Executive Director</i>	2016	18,265	-	-	1,735	-	-	20,000	0%	0%
<i>Andrew Crawford Non-Executive Director and Company Secretary)</i>	2016	53,665	-	-	1,735	-	-	55,400	0%	0%
Subtotal Directors and Company Secretary	2016	108,460	-	-	6,940	-	-	115,400		

Detailed remuneration information (continued)*CEO and Non-Executive Directors 2015 remuneration*

Table 11 presents summarised details of the remuneration for the CEO and Non-Executive Directors in 2015 as required under the Corporations Act.

Table 11: CEO and Non-Executive Directors 2015 remuneration details

Directors and Company Secretary	Year	Short Term		Post-employment		Share-based payments ¹		% of total remuneration at risk subject to:		
		Salary & Directors Fees	Bonus	Non-monetary benefits ²	Pension and Superannuation	Termination	Options	Total	Performance	Options
		\$	\$	\$	\$	\$	\$	\$	%	%
<i>Cliff Foss President, CEO and Managing Director (retired 10 August 2015)</i>	2015	338,994	-	20,004	14,038	-	3,804	376,840	0%	1%
<i>Peter Love Chairman and Non-Executive Director</i>	2015	36,530	-	-	3,470	-	-	40,000	0%	0%
<i>Peter Evans Non-Executive Director</i>	2015	18,265	-	-	1,735	-	-	20,000	0%	0%
<i>Andrew Crawford Non-Executive Director and Company Secretary (Company Secretary for full year. Non-executive Director from 10 August 2015)</i>	2015	41,046	-	-	536	-	-	41,582	0%	0%
Subtotal Directors and Company Secretary	2015	434,835	-	20,004	19,779	-	3,804	478,422		

¹ Share-based payments comprise equity-settled share options. These amounts were calculated in accordance with AASB 2 Share-based payments. 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.

² 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 and Company Secretaries in 2015 as required under the Corporations Act.

Table 12: Senior Executives 2015 remuneration details

Senior Executives	Year	Short Term			Post-employment		Share based payments ¹	Total	% of total remuneration at risk subject to:	
		Salary & Directors Fees	Bonus	Non-monetary benefits ²	Pension and Superannuation	Termination	Options		Performance	Options
		\$	\$	\$	\$	\$	\$	\$	%	%
Catherine Thompson <i>Financial Controller</i> <i>(until 10 March 2015)</i>	2015	38,351	-	5,486	909	-	64	44,810	-	0.1%
Subtotal Senior Executives	2015	38,351	-	5,486	909	-	64	44,810		
Total – Directors and Senior Executives	2015	473,186	-	25,490	20,688	-	3,868	523,232		

¹ 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.

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

13.8 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:

Table 13: 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
Current Directors						
Peter Love	2016	27,253,382	-	-	-	27,253,382
	2015	22,298,223	4,955,159 ⁽¹⁾	-	-	27,253,382
Peter Evans	2016	11,583,189	-	-	-	11,583,189
	2015	9,477,156	2,106,033 ⁽¹⁾	-	-	11,583,189
Andrew Crawford	2016	-	-	-	-	-
	2015	-	-	-	-	-

(1) Interests in Shares acquired during the year result from participation on the non-renounceable entitlement offer.

13.9 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.

13.10 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. Some 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 for such services were due and payable under normal payment terms.

Table 14: Other key management personnel transactions

	Transaction values for the year ended 31 December		Balance outstanding as at 31 December	
	2016	2015	2016	2015
	\$	\$	\$	\$
Administrative and other expenses	59,388	45,296	2,950	3,211

Box One Corporate Pty Ltd, a Company controlled by Mr A Crawford, receives payment for the services of Mr A Crawford as Company Secretary to the Group and also receives payment for other accounting and tax services provided to the Group. The agreement for these services was based on normal commercial terms and conditions. The payments relating to Mr A Crawford's Company Secretary services are included in section 13.8 as key management personnel remuneration.

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 and/or Board, 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 and/or Board 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 15 below.

Table 15: Non-audit services

	Consolidated 2016 \$	Consolidated 2015 \$
Audit services:		
Auditors of the Company, KPMG Australia – audit and review of financial reports	56,850	67,930
Other services:		
KPMG Australia – taxation and other services	4,613	4,500
KPMG US – taxation and other services	-	-
	61,463	72,430

15 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 26 of this Annual Report and forms part of the Directors' Report for the year ended 31 December 2016.

Signed in accordance with a resolution of Directors.



Peter Love
Chairman
Brisbane, Queensland
29 March 2017



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 2016 there have been:

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

KPMG

Jason Adams
Partner

Brisbane
29 March 2017

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Consolidated 2016 \$	Consolidated 2015 \$
Revenue	2	133,730	409,765
Cost of oil and gas sold	3	(187,614)	(411,870)
Net margin on sale of oil and gas		(53,884)	(2,105)
Other income		95,190	76,631
Employee benefits	3	(80,000)	(424,532)
Administrative and other expenses	3	(473,055)	(905,825)
Exploration and evaluation expenditure expensed	3	-	(38,791)
Reversal of provision no longer required	10	121,181	-
Net impairment reversal / (expense)	3	190,245	(825,580)
Lapsed lease expense	3	-	(122,192)
Results from operating activities		(200,323)	(2,242,394)
Finance income		7,640	3,738
Finance costs		(1,901)	(34,218)
Profit / (loss) before income tax		(194,584)	(2,272,874)
Income tax expense	4	-	-
Profit / (loss) for the period		(194,584)	(2,272,874)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation differences, net of tax		7,082	219,296
Total comprehensive income / (loss) attributable to owners of the company		(187,502)	(2,053,578)
		Cents	Cents
Basic earnings per share	6	(0.1)	(1.0)
Diluted earnings per share	6	(0.1)	(1.0)

The notes on pages 31 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	Consolidated 2016 \$	Consolidated 2015 \$
Current assets			
Cash and cash equivalents		401,374	667,168
Trade and other receivables	7	11,778	144,277
Prepayments		41,971	57,099
Total current assets		455,123	868,544
Non-current assets			
Security deposits		69,099	68,437
Oil and gas properties	8	518,519	363,126
Exploration and evaluation assets	9	-	41,133
Total non-current assets		587,618	472,696
TOTAL ASSETS		1,042,741	1,341,240
Current liabilities			
Trade and other payables		(65,184)	(61,704)
Provisions	10	(50,940)	-
Total current liabilities		(116,124)	(61,704)
Non-current liabilities			
Provisions	10	(393,028)	(558,445)
Total non-current liabilities		(393,028)	(558,445)
TOTAL LIABILITIES		(509,152)	(620,149)
NET ASSETS		533,589	721,091
Equity			
Issued capital	12	33,838,250	33,838,250
Reserves	12	2,677,177	2,670,095
Retained earnings		(35,981,838)	(35,787,254)
TOTAL EQUITY		533,589	721,091

The notes on pages 31 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

Consolidated	Note	Share capital \$	Share option reserve \$	Foreign currency translation reserve \$	Retained earnings / (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		-	-	-	(194,584)	(194,584)
Other comprehensive income						
Foreign exchange translation differences		-	-	7,082	-	7,082
Total comprehensive income for the period		-	-	7,082	(194,584)	(187,502)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued net of transaction costs		-	-	-	-	-
Balance at 31 December 2016		33,838,250	2,145	2,675,032	(35,981,838)	533,589
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		-	-	-	(2,272,874)	(2,272,874)
Other comprehensive income						
Foreign exchange translation differences		-	-	219,296	-	219,296
Total comprehensive income for the period		-	-	219,296	(2,272,874)	(2,053,578)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued net of transaction costs	12	546,819	-	-	-	546,819
Payments to cancel options	12	(3,404)	-	-	-	(3,404)
Share option reserve	12	-	(113,770)	-	117,976	4,206
Balance at 31 December 2015		33,838,250	2,145	2,667,950	(35,787,255)	721,090

The notes on pages 31 to 56 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Consolidated 2016 \$	Consolidated 2015 \$
Cash flows used in operating activities			
Cash receipts from customers		252,162	652,527
Cash paid to suppliers and employees		(650,381)	(1,797,046)
Interest received		7,640	3,738
Interest paid		(635)	(4,218)
Net cash used in operating activities	18	(391,214)	(1,144,999)
Cash flows used in investing activities			
Exploration, evaluation and development expenditure		-	(544,824)
Proceeds from sale of property, plant and equipment		-	8,046
Proceeds from sale of oil and gas properties		121,115	735,405
Net cash used in investing activities		121,115	198,627
Cash flows from financing activities			
Proceeds from the issuance of shares		-	550,050
Share issue costs		-	(33,231)
Payments for options cancelled		-	(3,404)
Proceeds from borrowings		-	400,000
Repayment of borrowings		-	(400,000)
Net cash from financing activities		-	513,415
Net increase/(decrease) in cash and cash equivalents		(270,099)	(432,957)
Effect of exchange rate fluctuations on cash held		4,305	57,624
Cash and cash equivalents at beginning of period		667,168	1,042,501
Cash and cash equivalents at 31 December		401,374	667,168

The notes on pages 31 to 56 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 assets
10	Provisions
11	Tax assets and liabilities
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14	Capital and other commitments
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16	Consolidated entities
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21	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 2016 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 develop and produce 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 29 March 2017.

(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 \$194,584 in the year ended 31 December 2016 and has accumulated losses of \$35,981,838 as at 31 December 2016. The Group has cash on hand of \$401,374 at 31 December 2016 and used \$391,214 of net cash in operations for the year ended 31 December 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.

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 additional short term funding.

In the event that the Group does not obtain additional funding, and/or dispose of existing assets, 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.

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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 2016. 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 2016.

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.

AASB 16 *Leases* establishes a new framework for the recognition of leases on balance sheet. The standard is not applicable until 1 January 2019 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.

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.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(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 14 – Financial Instruments.

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

Subsidiaries are entities controlled by the Company. Control exists when the Company has 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.

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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.

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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.

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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.

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.

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.

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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.

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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 net gain 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.

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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 board, who acts as 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 \$587,618 (2015: \$472,696) and Australia \$0 (2015: \$0).

(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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. REVENUE

	Consolidated 2016 \$	Consolidated 2015 \$
Revenue		
Oil sales	125,422	370,798
Gas sales	8,308	38,967
	133,730	409,765

Operating segment disclosures

All of the Group's oil and gas revenues are from two customers located in the USA. This amount represents more than 57% of the Group's total income for the 2016 financial year (2015: 84%).

3. EXPENSES

	Consolidated 2016 \$	Consolidated 2015 \$
Cost of oil and gas sold		
Production taxes	5,955	19,908
Lease operating expenses, marketing, processing and transportation	97,903	135,147
Depletion	83,756	256,815
	187,614	411,870

	Consolidated 2016 \$	Consolidated 2015 \$
Employee benefit expenses		
Wages and salaries	73,060	335,493
Contributions to defined contribution plans	6,940	20,688
Share based payments	-	3,899
Other associated employee costs	-	64,452
	80,000	424,532

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. EXPENSES (continued)

	Consolidated 2016 \$	Consolidated 2015 \$
Administrative and other expenses		
General corporate and compliance	415,670	677,082
Consultants	57,219	221,727
Expensed work over activity	166	7,016
	473,055	905,825

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. There was no expensed exploration in the 2016 financial year (2015: \$38,791).

Net impairment (reversals) / expense

At 31 December 2016, the Company evaluated the carrying values of oil and gas properties in comparison with their estimated recoverable amounts based on proved and probable (2P) reserves estimates prepared by independent third party reserve engineers and determined that certain properties had recovered a portion of their previously impaired value. Refer to Note 8 for details. 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:

	Consolidated 2016 \$	Consolidated 2015 \$
Oil and gas properties, net of depletion	(230,644)	757,448
Exploration and evaluation assets	40,399	68,132
	(190,245)	825,580

4. INCOME TAX EXPENSE

Numerical reconciliation between tax expense and pre-tax net profit / (loss)

	Consolidated 2016 \$	Consolidated 2015 \$
Profit / (loss) before tax	(194,584)	(2,272,874)
Income tax expense/(benefit) using the domestic corporation tax rate of 30%	(58,375)	(681,862)
Increase/(decrease) in income tax expense due to:		
Change in unrecognised deferred tax assets	53,225	775,820
Non-deductible expenditure	64	-
Effect of tax rates in foreign jurisdictions	5,086	(93,958)
Income tax expense/(benefit)	-	-

Income tax expense consists of current tax expense of \$nil (2015: \$nil) and deferred tax expense of \$nil (2015: \$nil).

Income tax expense/benefit recognised directly in equity for the Group is \$nil (2015: \$nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. AUDITOR'S REMUNERATION

	Consolidated 2016 \$	Consolidated 2015 \$
Audit services:		
Auditor of the Company, KPMG Australia – audit and review of financial reports	56,850	67,930
Other services:		
KPMG Australia – taxation and other services	4,613	4,500
	61,463	72,430

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 2016 or 31 December 2015.

	Consolidated 2016 Cents	Consolidated 2015 Cents
Basic earnings per share	(0.1)	(1.0)
Diluted earnings per share	(0.1)	(1.0)
	\$	\$
Profit / (loss) used in the calculation of basic and diluted earnings per share	(194,584)	(2,272,874)

2016 Weighted average number of ordinary shares (basic and diluted)

	Number
Shares issued and outstanding at 31 December 2015	253,456,191
Weighted average number of ordinary shares used as the denominator in calculating 2016 basic and diluted earnings per share	253,456,191

2015 Weighted average number of ordinary shares (basic and diluted)

	Number
Shares issued and outstanding at 31 December 2014	205,230,866
Shares deemed issued under entitlement offer	5,500,517
Issue of ordinary shares 30 March 2015	787,671
Issue of ordinary shares 28 April 2015	27,296,537
Issue of ordinary shares 10 September 2015	413,066
Weighted average number of ordinary shares used as the denominator in calculating 2015 basic and diluted earnings per share	239,228,657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. TRADE AND OTHER RECEIVABLES

	Consolidated 2016 \$	Consolidated 2015 \$
Current		
Trade receivables	11,778	144,277
	11,778	144,277

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 13.

8. OIL AND GAS PROPERTIES

	Consolidated 2016 \$	Consolidated 2015 \$
Oil and gas properties		
Cost		
Balance at beginning of period	2,024,255	2,722,569
Net disposals	-	(823,631)
Transferred from exploration and evaluation expenditure	-	634,896
Impairment expense	-	(783,210)
Impairment reversal	230,644	25,762
Loss on lapse of lease	-	(122,192)
Foreign exchange translation	26,544	370,061
Balance at 31 December	2,281,443	2,024,255
Accumulated depletion		
Balance at beginning of period	(1,661,128)	(1,265,510)
Depletion expense	(83,756)	(256,816)
Accumulated depletion on disposals	-	28,427
Foreign exchange translation	(18,040)	(167,229)
Balance at 31 December	(1,762,924)	(1,661,128)
Carrying amounts		
At beginning of period	363,126	1,457,059
At 31 December	518,519	363,126

At 31 December 2016, the Company evaluated the carrying values of oil and gas properties in comparison with their estimated recoverable amounts based on proved and probable (2P) reserves estimates prepared by independent third party reserve engineers and determined that certain properties had recovered a portion of their previously impaired value. Total net impairment (reversal) / expense of \$(230,644) (2015: \$757,448) has been recorded for the financial year ended 31 December 2016. The reserve valuation of oil and gas assets at 31 December 2016 of \$518,519 (2015: \$363,126) is based on value in use calculated using a discounted cash flow model with a 10% pre-tax discount rate (2015: 10%).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. EXPLORATION AND EVALUATION ASSETS

	Consolidated 2016 \$	Consolidated 2015 \$
Balance at beginning of period	41,133	618,669
Additions	-	82,643
Transferred to oil and gas properties	-	(634,896)
Impairment expense	(40,399)	(68,132)
Foreign exchange translation	(734)	42,849
Balance at 31 December	-	41,133

10. PROVISIONS

	Consolidated 2016 \$	Consolidated 2015 \$
Current		
Restoration provision		
Balance at beginning of period	-	-
Transfer from non-current provision	50,940	-
Balance at 31 December	50,940	-
Non-current		
Restoration provision		
Balance at beginning of period	558,445	517,068
Provisions made/(reversed) during the period	(121,181)	(22,228)
Transfer to current provision	(50,940)	-
Discount on unwinding of provision	1,302	-
Foreign exchange translation	5,402	63,605
Balance at 31 December	393,028	558,445

At 31 December 2016 a current provision of \$50,940 has been recognised in respect of the Group's Hoskins #2 well, with a non-current provision of \$393,028 recognised for restoration of existing wells on the Group's remaining acreage. The provision has been estimated based on existing technology and procedures and current prices. During the period, \$121,181 was recognised through the income statement in connection with the reversal of a provision no longer required on a well which the Group non-consented to in the 2015 income year.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**11. TAX ASSETS AND LIABILITIES****Recognised deferred tax assets and liabilities**

The Group has not recognised any deferred tax assets or deferred tax liabilities at 31 December 2016 or 31 December 2015.

Unrecognised deferred tax assets

The Group has tax losses with a potential tax benefit of \$10,062,628 (2015: \$9,664,901) 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 \$3,143,759 (2015: \$3,273,065) and unrecognised temporary differences relating to other items with a potential tax benefit of \$1,777 (2015: \$15,956). 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.

12. EQUITY AND RESERVES**Share capital**

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

	Consolidated 2016	Consolidated 2015
	Ordinary shares (number)	Ordinary shares (number)
On issue at beginning of period	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

Issuance of ordinary shares

On 30 March 2015 the Company issued 1,041,667 ordinary shares at \$0.012 per Share as payment of an establishment fee and interest in advance in respect of a short term loan facility.

On 28 April 2015 the Company issued 45,837,504 ordinary shares under a fully underwritten 2 for 9 pro-rata non-renounceable entitlement offer at \$0.012 per Share.

On 10 September 2015 the Company issued 1,346,154 ordinary shares at \$0.013 per share as payment of an establishment fee and interest in advance in respect of a short term loan facility.

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:

	Consolidated 2016	Consolidated 2015
	Options (number)	Options (number)
Outstanding at 1 January	183,336	5,450,000
Forfeited during the period	-	(2,766,662)
Cancelled during the period	-	(2,500,002)
Outstanding at end of period	183,336	183,336
Exercisable at 31 December	183,336	183,336

The 183,336 options outstanding at 31 December 2016 are exercisable at \$0.0675 each and expire 7 March 2019.

The Company's option reserve at 31 December 2016 reflects the aggregate fair value of outstanding options expensed \$2,145 (2015: \$2,145).

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 16) 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 2016 (2015: nil). In respect to the payment of dividends by the Company in subsequent reporting periods (if any), no franking credits are currently available.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. FINANCIAL INSTRUMENTS (continued)

B. Market Risk (continued)

Currency risk

The Group is exposed to currency risk on sales, purchases, assets and payables 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	2016		2015	
	Australian	US	Australian	US
	\$	\$	\$	\$
Cash and cash equivalents	286,262	115,112	366,082	301,086
Trade and other receivables (current)	-	11,778	226	144,050
Prepayments	14,439	27,532	15,204	41,896
Security deposits (non-current)	-	69,099	-	68,437
Trade and other payables	(44,288)	(20,896)	(43,502)	(18,201)
Net exposure	256,413	202,625	338,010	537,268

The following significant exchange rates applied during the period.

AUD	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
USD	0.74	0.75	0.72	0.73

Sensitivity analysis

The functional currency of the main operating entities in the Group is US dollars. For the period 1 January 2016 to 31 December 2016 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 2016, a 10% movement in the US dollar against the Australian dollar would have resulted in \$18,420 decrease / \$22,513 increase in comprehensive net income (2015: \$48,843 decrease / \$59,696 increase).

In 2016 the US dollar weakened relative to the Australian dollar resulting in a \$7,082 foreign currency translation gain (2015: \$219,296 gain) on the statement of comprehensive income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**13. 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 2016 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 \$716 (2015: \$1,668), 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 at year end.

	Rates	Consolidated 2016	Consolidated 2015
Cash and cash equivalents	Variable	401,374	667,168
		401,374	667,168

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:

	Note	Consolidated Carrying amount 2016 \$	Consolidated Carrying amount 2015 \$
Cash and cash equivalents		401,374	667,168
Short term financial assets		-	-
Trade and other receivables (current)	7	11,778	144,277
Security deposits (non-current)		69,099	68,437
		482,251	879,882

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 directors monitor credit quality of the financial institutions utilised by the Group. At 31 December 2016 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. At 31 December 2015 accrued revenue from Talon's primary customer, a subsidiary of a Global Fortune 500 company, and a receivable on the sale oil and gas assets (received in January 2016) 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 the trade and other receivables balances.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. FINANCIAL INSTRUMENTS (continued)

C. Credit risk (continued)

By Country, Moody's rating	Consolidated Carrying amount 2016 \$	Consolidated Carrying amount 2015 \$
ANZ and NAB	355,284	605,582
Wells Fargo	46,090	61,586

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 \$65,184 (2015: \$61,704). 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 minimising overhead expenditure.

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 2016 and 2015 are assumed to approximate their carrying amounts due to the short term nature of the instruments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**14. CAPITAL AND OTHER COMMITMENTS****Non-cancellable operating lease expense commitments**

Non-cancellable operating lease rentals are payable as follows:

	Consolidated 2016 \$	Consolidated 2015 \$
Less than one year	-	90,069
Between one and five years	-	-
	-	90,069

The operating lease rentals relate to office and equipment leases with terms ranging from one to five years. During the period \$97,804 (2015: \$119,443) was recognised by the Group as an expense in the statement of comprehensive income in respect of operating leases.

Other commitments

There were no other commitments at 31 December 2016 or 31 December 2015

15. 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 2016 (2015: \$nil).

Guarantees

The Group has provided guarantees and deposits of \$69,099 (2015: \$68,437) in relation to exploration activities in Texas, USA.

Litigation

The Group has no outstanding litigations as at 31 December 2016 (2015: \$nil).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. CONSOLIDATED ENTITIES

	Country of Incorporation	Ownership interest	Ownership interest
		2016 %	2015 %
Parent entity			
Talon Petroleum Limited			
Subsidiaries			
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.

17. 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.

At 31 December 2016 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 (Brice Bonner #1)	Navarro County, TX	Operation & Production	Non-operator	1%
Texoz, et al (Olmos – Quintanilla OL 1H)	McMullen County, TX	Operation & Production	Operator	10%

During the financial year ended 31 December 2015 the Group disposed of its working interests in joint operating agreements relating to the following projects, whose principal activities were oil and gas exploration and production

Operating Agreement	Location	Purpose	Talon Relationship	Working Interest
Texoz - Aurora Resources Corporation (Scherer #2)	Jackson County, TX	Operation & Production	Non-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. The Company's 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)

18. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated 2016 \$	Consolidated 2015 \$
Cash flows from operating activities		
Profit / (loss) for the period	(194,584)	(2,272,874)
Adjustments for non-cash items:		
Net impairments	(190,245)	825,580
Reversal of provision no longer required	(121,181)	-
Lapsed lease expense	-	122,192
Depreciation – plant and equipment	-	2,385
Depletion – oil and gas properties	83,756	256,816
Unwinding of restoration provision discount	942	-
Share based payments expense	-	4,206
Finance costs	-	30,000
Gain on disposal of fixed assets	-	3,267
Net exchange differences	-	5,042
Operating profit/(loss) before changes in working capital and provisions	(421,312)	(1,023,386)
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	18,663	160,206
(Increase)/decrease in prepayments	9,020	(16,655)
(Decrease)/increase in payables	2,895	(166,687)
(Decrease)/increase in employee benefits	(480)	(98,477)
Net cash used in operating activities	(391,214)	(1,144,999)

19. 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:

Non-executive directors

Mr P Love
Mr P Evans
Mr A Crawford

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 17 – 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**19. 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:

	Consolidated 2016 \$	Consolidated 2015 \$
Short term benefits	108,460	498,676
Post-employment benefits	6,940	20,688
Share-based payment	-	3,868
	115,400	523,232

20. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 31 December 2016 the parent entity of the Group was Talon Petroleum Limited.

	2016 \$	2015 \$
Result of the parent entity		
Loss for the period	(187,502)	(1,936,059)
Other comprehensive income for the period	-	-
	(187,502)	(1,936,059)
Financial position of the parent entity at period end		
Current assets	369,723	605,582
Total assets	577,877	764,593
Current liabilities	44,288	43,502
Total liabilities	44,288	43,502
Total equity of the parent entity comprising of:		
Share capital	33,838,250	33,838,250
Reserves	2,145	2,145
Accumulated losses	(33,306,806)	(33,119,304)
Total Equity	533,589	721,091

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

21. SUBSEQUENT EVENTS

On 27 March 2017 the group entered into a financing arrangement with an unrelated party to provide a \$275,000 unsecured loan for a period of twelve 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.

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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 27 to 56 and the Remuneration report in section 13 of the Directors' Report set out on pages 17 to 24, 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 2016 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 2016.

Signed in accordance with a resolution of the Directors.



Peter Love
Chairman
Brisbane, Queensland
29 March 2017

Independent Auditor's Report

To the shareholders of Talon Petroleum Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Talon Petroleum Limited (the **Company**).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2016;
- Consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Material Uncertainty Related to Going Concern

We draw attention to Note 1(b), "Going Concern" in the Financial Report. The conditions disclosed in Note 1(b), indicate a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the Financial Report. Our opinion is not modified in respect of this matter.

In concluding there is a material uncertainty related to going concern we evaluated the extent of uncertainty regarding events or conditions casting significant doubt in the Group's assessment of going concern. Our approach to this involved:

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- Evaluating the feasibility, quantum and timing of the Group’s plans to revise funding arrangements to address going concern;
- Assessing the Group’s cash flow forecasts for incorporation of the Group’s operations and plans to address going concern; and
- Determining the completeness of the Group’s going concern disclosures for the principle matters casting significant doubt on the Group’s ability to continue as a going concern, the Group’s plans to address these matters, and the material uncertainty.

Key Audit Matters

The **Key Audit Matters** we identified are:

- Carrying values of oil and gas properties; and
- Provision for restoration.

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Carrying values of Oil and Gas Properties (\$518,519)

Refer to Note 8 to the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p><i>Australian Accounting Standards</i> require the Group to assess whether there are indicators the carrying values of its oil and gas properties may be impaired, or that a reversal of a previously recognised impairment may be required.</p> <p>The carrying values of the Group’s oil and gas properties is a key audit matter as significant judgment is required by us in evaluating the Group’s estimation of their recoverable amount. This adds complexity to our evidence gathering process.</p> <p>In particular, the Group applies significant judgment in determining forward-looking assumptions such as commodity prices, future production volumes and capital and operating costs used in the value-in-use model. The recoverable amount is sensitive to changes in these inputs.</p> <p>The Group uses an independent third party reserve engineer in their determination of the value-in-use including the estimation of proved and probable (2P) reserves.</p> <p>We use senior team members including our valuation specialists in assessing this key audit matter.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> • Assessing the competence, capabilities and objectivity of the independent third party reserve engineer engaged by the Group; • Evaluating the valuation methodology used by the independent third party reserve engineer for consistency with the requirements of accounting standards and common industry practice; • Performing sensitivity analysis to assess the key assumptions with the greatest impact on the value-in-use to focus our effort thereon; • Critically evaluating significant assumptions in the value-in-use model by: <ul style="list-style-type: none"> - Comparing forecast commodity prices to available industry data, analyst views and broker consensus; - Comparing production volumes to the estimate of 2P reserves determined by the independent third party reserve engineer; - Assessing forecast capital and operating costs against historical experience; and - Independently developing a discount rate from our research of market observable data and knowledge of the industry and comparing it to the rate used by the Group.

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Provision for restoration (\$443,968)

Refer to Note 10 to the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p>The provision for the Group’s restoration obligations is a key audit matter due to:</p> <ul style="list-style-type: none"> • The significance of the balance (being 87% of total liabilities); and • The inherent complexity in estimating future restoration costs, particularly those that are forecast to be incurred several years in the future. <p>We focused on assessing:</p> <ul style="list-style-type: none"> • Third party advice sought by the Group regarding their obligations under current regulatory requirements and estimates of future costs; • Historical experience, and whether this is a reasonable predictor when evaluating forecast costs; and • The expected timing of the expenditure. 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Reviewing third party advice and internal documentation used by the Group to determine its future required restoration activities, their timing and associated cost estimations. We compared these to the nature, quantum and timing of costs contained in calculation of the provision balance; • Testing the accuracy of historical estimates for restoration provisions by comparing to actual expenditure. We used this knowledge to challenge management’s current cost estimations; • Performing sensitivity analysis on the impact of changes to key assumptions used in the provision estimation, to focus our effort thereon; • Evaluating the completeness of the restoration provision by comparing the Group’s internal register of fields to those included in the provision; • Corroborating the expected timing of the restoration activity to the useful life of the related oil and gas properties.

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Other Information

Other Information is financial and non-financial information in Talon Petroleum Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the Chairman's Report, Operational Review, Financial Review, Board of Directors, Corporate Governance Statement and Directors' Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company and Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Talon Petroleum Limited for the year ended 31 December 2016 complies with *Section 300A* of the *Corporations Act 2001*.

KPMG

Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in Section 13 of the Directors' Report for the year ended 31 December 2016.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

Jason Adams
Partner

Brisbane
29 March 2017

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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 22 March 2017:

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	12,374	69		
1,001-5,000	100,124	33		
5,001-10,000	185,826	25		
10,001-100,000	10,366,928	210	16,668	1
100,001-and over	242,790,939	144	166,668	1
Total	253,456,191	481	183,336	2

The number of holders holding less than a marketable parcel of 50,000 fully paid ordinary shares as at 22 March 2017 was 264 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 22 March 2017:

Name	Number	%
1. ROCKET SCIENCE PTY LTD <THE TROJAN CAPITAL FUND A/C>	56,433,744	22.27
2. SINGULAR ENERGY PTY LTD <SINGULAR PETROLEUM A/C>	17,256,650	6.81
3. M E J C PTY LTD <MEJ CLARKE FAMILY A/C>	13,000,000	5.13
4. MRS PATTI THERESE WUST	9,938,000	3.92
5. MRS CHARISSA JILLIAN MANN	9,289,210	3.67
6. MR KIERAN JAMES MANN	8,213,540	3.24
7. MR PETER JAMES MITCHELL LOVE	7,925,069	3.13
8. SAS INVESTMENTS PTY LTD <SHEPHERD SUPER FUND A/C>	7,027,378	2.77
9. MR DAVID FREDERICK OAKLEY <DFO INVESTMENT A/C>	6,749,999	2.66
10. BANJO SUPERANNUATION FUND PTY LTD <P D EVANS PSF A/C>	4,986,666	1.97
11. BERNE NO 132 NOMINEES PTY LTD <52293 A/C>	4,601,642	1.82
12. WANDOO ENERGY LLC	4,480,000	1.77
13. RESOURCE & LAND MANAGEMENT SERVICES PTY LTD <THE SKERMAN SUPER FUND A/C>	4,465,842	1.76
14. BEIRNE TRADING PTY LTD	4,000,000	1.58
15. HANCROFT PTY LTD	3,919,854	1.55
16. MR CONRAN JAMES SMITH	3,875,108	1.53
17. MRS MARILYN WILLIAMS	3,829,690	1.51
18. MRS ALEXANDRIA ELIZABETH WASHINGTON	3,126,138	1.23
19. KLIP PTY LTD <BEIRNE SUPER FUND A/C>	3,112,487	1.23
20. MR ROBERT BROWN DENNIS	3,002,000	1.18
TOTAL	179,233,017	70.72

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 notices given to the Company as at 22 March 2017 and directors interest notices.

Name	Number	%
MR PETER JAMES MITCHELL LOVE	27,253,382	10.75
ROCKET SCIENCE PTY LTD ATF THE TROJAN CAPITAL FUND	56,250,258	22.19
M E J C PTY LTD <MEJ CLARKE FAMILY A/C>	13,000,000	5.13
TOTAL	96,503,640	38.07

(d) Unlisted securities

The names of holders of 20% or more of unlisted options and the number or unlisted options each holds as at 28 February 2017

Name	Number	%
BRUCE SYLVAN HAMILTON	166,668	90.91
ETERNITY J MCCULLOUGH	16,668	9.09
TOTAL	183,336	100.00

(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 22 March 2017.

(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.

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GLOSSARY

1P	proved (developed plus undeveloped) reserves in accordance with SPE-PRMS
2P	proved plus probable reserves in accordance with the SPE-PRMS
3P	proved, probable and possible reserves in accordance with SPE-PRMS
A\$	Australian dollars, unless otherwise stated
AASB	Australian Accounting Standards Board or, if the context requires, an Australian Accounting Standard adopted by it
AGM	Annual General Meeting
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited (ACN 008 624 691) or, if the context requires, the securities market operated by it
bbl	barrels
bcf	billion cubic feet
bcfe	billion cubic feet equivalent
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
bwpd	barrels of water per day
CEO	Chief Executive Officer
Company or Talon	Talon Petroleum Limited (ABN 88 153 229 086)
Constitution	constitution of the Company
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
CWI	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)
Director	director of the Company
ft	feet
Group	Talon and its subsidiaries
IFRS	International Financial Reporting Standards
KMP	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
LTI	long term incentive
m	metres
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
mcfd	thousand cubic feet per day
mcfgpd	thousand cubic feet of gas per day
mmbo	million barrels of oil
mmboe	million barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 boe)
mmcf	million cubic feet
NSAI	Netherland, Sewell & Associates, Inc.
NGL	natural gas liquids
NRI	net revenue interest or share of production after all burdens such as royalties have been deducted from the WI
ORRI	overriding royalty interest, which is a percentage share of production free from all costs of drilling and producing
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)
Q	year quarter
Share	fully paid ordinary share in the capital of the Company
SPE-PRMS	Petroleum Resources Management System 2007, published by the Society of Petroleum Engineers
STI	short term incentive
Texon	Texon Petroleum Ltd (ABN 24 119 737 772)
Texoz	Texoz E&P II, Inc.
TVD	True Vertical Depth
US\$	U.S. dollars
VWAP	volume weighted average price
Wandoo	Wandoo Energy, LLC
WI	working interest, a cost bearing interest of an oil and gas project

Qualified evaluator statement

The reserves estimates shown herein have been independently evaluated by Netherland, Sewell & Associates, Inc. (NSAI), a worldwide leader of petroleum property analysis for industry and financial organizations and government agencies. NSAI was founded in 1961 and performs consulting petroleum engineering services under Texas Board of Professional Engineers Registration No. F-2699. Within NSAI, the technical person primarily responsible for preparing the estimates set forth in the NSAI reserves report incorporated herein is Mr 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 14 years of practical experience in petroleum engineering, with over 7 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.

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CORPORATE DIRECTORY

Directors

Peter Love (Non-Executive Chairman)
Peter Evans (Non-Executive Director)
Andrew Crawford (Non-Executive Director)

Company Secretary

Andrew Crawford

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