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Talon Petroleum Limited

ABN 88 153 229 086

**Consolidated interim financial report
for the period ended
30 June 2020**

TALON PETROLEUM LIMITED

Consolidated Interim Financial Report 30 June 2020

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Corporate Directory

Directors

Peter Stickland

Non-Executive Chairman

David Casey *(Appointed 19 July 2020)*

Managing Director & CEO

Matt Worner

Executive Director

Graham Doré

Non-Executive Director

Stephen Jenkins

Non-Executive Director

Company Secretary

Lauren Nelson

Registered Office and Principal Place of Business

1202 Hay Street

West Perth WA 6005

Tel: +61 8 6319 1900

Auditors

BDO Audit (WA) Pty Ltd

38 Station Street

Subiaco WA 6008

Telephone: +61 8 6382 4600

Share Registry

Computershare Investor Services Pty Ltd

Level 11, 172 St Georges Terrace

Perth WA 6000

Australian Telephone: 1300 850 505

International Telephone: +61 3 9415 4000

www.computershare.com.au

Securities Exchange Listing

Australian Securities Exchange Limited

ASX Code: TPD

Website

www.talonpetroleum.com.au

TALON PETROLEUM LIMITED

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Directors' Report

The Board of Directors of Talon Petroleum Limited ("the Consolidated Entity", "the Group" or "the Company") has pleasure in presenting its report on the Company for the half-year ended 30 June 2020.

Directors and Company Secretary

The names of the Directors and Company Secretary in office at any time during or since the end of the report period are:

Peter Stickland	Non-Executive Chairman
David Casey	Managing Director & CEO (<i>Appointed 19 July 2020</i>)
Matt Worner	Executive Director
Graham Dorè	Non-Executive Director
Stephen Jenkins	Non-Executive Director
Lauren Nelson	Company Secretary

Review and Results of Operations

The Directors provide the following comments on the operations of the Group for the half-year ended 30 June 2020.

Operational Review

During the period, Talon continued to execute on its strategy for delivering long-term shareholder value from its portfolio of assets in the UK North Sea, primarily by progressing farmout processes for the Skymoos, Rocket and Vantage prospects.

Despite the challenging macro-economic and workplace environment created by the COVID-19 pandemic, the level of engagement with interested parties remains strong. However, the timing of any successful farm-out remains uncertain.

Subsequent to the end of the period, Talon moved to diversify its portfolio and gain exposure to the rapidly emerging West Australian gas thematic by entering into an agreement with Strike Energy Limited to farm-in to the EP447 permit in the onshore Perth Basin.

EP447 farm-in

On 21 July 2020 Talon signed a non-binding term sheet to farm-in to EP447 in the onshore Perth Basin, which contains the Walyering wet gas prospect and is 100% owned and operated by Strike.

As part of the deal, Talon is also acquiring a right of first refusal (ROFR) over EP495 in the Perth Basin, which contains the Ocean Hill-1 discovery. Ocean Hill is also 100% owned by Strike and has a gross 2C Contingent Resource of 360Bcf (gas) and 1.18mmbbls (condensate).

As consideration for the acquisition of 45% interest in EP447 and the ROFR over EP495, Talon is required to contribute A\$6 million towards the cost of an appraisal well at Walyering, which contains a best estimate in-place prospective resource of 86Bcf (gas) and 2.18mmbbls (condensate).

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The estimated quantities of petroleum that may potentially be recovered by the application of future development projects relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

The gross well cost is estimated at A\$9 million and will be added to Strike's planned 2021 multi-well Perth basin drilling program.

Talon secured commitments to raise A\$5 million through a share placement to sophisticated and institutional investors in the days immediately following the announcement of the farm-in deal with Strike.

More detail on the capital raising, which will fund Talon's share of the Walyering well cost, is included in the Corporate section below.

Newly acquired and interpreted 3D seismic over EP447 has allowed Strike to apply its Perth Basin technical expertise to Walyering and reconcile past technical challenges with the prospect. Walyering's proximity to infrastructure, low CO₂ and high liquids component will assist with the reduction in development and production costs and commercial viability in the event of success.

The recently acquired 3D dataset over Walyering has greatly improved the understanding of the opportunity that exists at Ocean Hill.

The information in this report that relates to Prospective Resource information in relation to the Walyering Prospect and Contingent Resource information in relation to Ocean Hill is based on information compiled by the operator of these assets, Strike Energy Limited. This information was subsequently reviewed by Mr Peter Stickland BSc (Hons), who has consented to the inclusion of such information in this report in the form and context in which it appears.

Mr Stickland is a director of the Company, with more than 25 years relevant experience in the petroleum industry and is a member of the European Association of Geoscientists & Engineers and the Petroleum and Exploration Society of Australia. The resources included in this report have been prepared using definitions and guidelines consistent with the 2007 Society of Petroleum Engineers (SPE)/World Petroleum Council (WPC)/ American Association of Petroleum Geologists (AAPG)/ Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (PRMS). The resources information included in this report are based on, and fairly represents, information and supporting documentation reviewed by Mr Stickland.

Mr Stickland is qualified in accordance with the requirements of ASX Listing Rule 5.41 and consents to the inclusion of the information in this report of the matters based on this information in the form and context in which it appears.

UK North Sea farm-out process

Talon is committed to securing a farm-out partner or partners for its UK North Sea assets as expeditiously as possible. However, notwithstanding that we are seeing increasing engagement, the change in market conditions that emerged with the onset of the COVID-19 pandemic has presented challenges for interested parties seeking to complete review and approval processes.

To provide the best opportunity to achieve a farm-out transaction for Talon's largest UK North Sea prospect, Skymoos, the Company submitted an application to the UK Oil and Gas Authority (OGA) for a one-year work phase extension to its licence.

The extension has been granted, ensuring Talon can continue with the farm-out process in the knowledge that tenure to all four of its highly prospective licences in the UK Central North Sea are secure.

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Pleasingly, the recent recovery and stability in the Brent Crude oil price to levels generally above the break-even point for UK North Sea projects has seen a resumption in M&A and other activity in the region and is providing renewed certainty around the future for companies operating there.

Financial Results

During the half-year the group delivered a loss after income tax of \$174,721 (2019: \$797,220). Oil and gas sales for the half-year totalled \$214 (2019: \$45,981). The cash balance as at 30 June 2020 was \$1,469,898 (2019: \$1,850,954).

Dividends Paid or Recommended

No dividends have been paid or declared for payment during the financial period.

Corporate

Cost saving measures

In light of the change in market conditions during the period, the Board resolved to reduce Director fees and salaries, with a reduction of 50% for Non-Executive Directors and 40% for the then Managing Director, effective from 1 March 2020.

It was proposed that these fee reductions would be partially offset by the issue of securities largely linked to Company performance, calculated at a premium to current share price and at values less than any cash amount forgone.

At the Company's annual general meeting in May, shareholders approved the grant of performance rights to Directors to offset the reduction in fees and to incentivise the achievement of share-based and operational milestones.

Appointment of Managing Director to drive Perth Basin activities

Subsequent to the end of the period, and in conjunction with the move to farm-in to EP447 in the Perth Basin, the Company appointed Mr David Casey to the position of Managing Director.

Mr Casey has a wealth of experience in the oil and gas sector as a geologist and Managing Director/CEO of ASX-listed energy companies including Eastern Star Gas Limited, where he was instrumental in the appraisal, development and commercialisation of the Narrabri Gas Project in northern NSW.

Eastern Star grew to be an ASX200 company before it was taken over by Santos Limited for A\$924 million. Most recently, Mr Casey was CEO Australia and Asia Pacific at Warrego Energy Limited (ASX: WGO), which is a 50% joint venture partner with Strike in the West Erregulla discovery in the Perth Basin.

Following Mr Casey's appointment his predecessor, Matthew Worner, has become an Executive Director working across the Company's business with a particular focus on its UK North Sea exploration portfolio.

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Successful A\$5 million capital raising

In another development subsequent to the end of the period, Talon successfully raised A\$5 million through a placement to sophisticated and institutional investors, providing funding for the Perth Basin farm-in with Strike and to progress its UK North Sea exploration portfolio.

The placement was undertaken at an issue price of \$0.002 per share, a 33% premium to the Company's 20-day volume weighted average price (VWAP). Participants also received one free attaching option for every two shares subscribed for, with the options carrying an exercise price of \$0.004 and an expiry date of 28 February 2022.

The issue of 444,197,380 shares as Tranche 1 of the placement was completed in late July. Shareholders voted on Tranche 2 of the placement and the issue of the free-attaching options at a general meeting held 8 September 2020, with all resolutions passing and decided by way of a poll.

Talon was very pleased with the level of interest in the placement and believes it served as a strong endorsement of the Company's strategy to diversify into the Perth Basin while persisting with efforts to unlock the obvious value within its UK North Sea portfolio.

Annual General Meeting

The Talon Annual General Meeting was held on the 29 May 2020.

All resolutions put to shareholders at the meeting were passed and decided by way of a poll.

Subsequent Events

Subsequent to the end of the period, and in conjunction with the move to farm-in to EP447 in the Perth Basin, the Company appointed Mr David Casey to the position of Managing Director. Under Mr Casey's Executive Services Agreement, he will receive a total Salary of A\$250,000 (plus statutory superannuation). Mr Casey will also receive an incentive package which included a package of Performance Rights in an amount of 327,678,952, subject to specific vesting criteria.

In another development subsequent to the end of the period, Talon successfully raised A\$5 million through a placement to sophisticated and institutional investors, providing funding for the Perth Basin farm-in with Strike and to progress its UK North Sea exploration portfolio

The issue of 444,197,380 shares as Tranche 1 of the placement was completed in late July.

Shareholders voted on Tranche 2 of the placement and the issue of the free-attaching options at a general meeting held 8 September 2020, all resolutions were passed and decided by way of poll. Shares were issued on 11th September 2020 following \$4,111,605 received to the Company's bank account.

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has not significantly impacted the entity up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

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

Auditor's Independence Declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 9 for the half-year ended 30 June 2020.

This report is signed in accordance with a resolution of the Board of Directors.



Peter Stickland

Non-Executive Chairman

Dated 11 September 2020

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DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF TALON PETROLEUM LIMITED

As lead auditor for the review of Talon Petroleum Limited for the half-year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Talon Petroleum Limited and the entities it controlled during the period.



Dean Just
Director

BDO Audit (WA) Pty Ltd
Perth, 11 September 2020

TALON PETROLEUM LIMITED

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 30 June 2020

	Note	30-June-20 \$	30-June-19 \$
Revenue		214	45,981
Cost of oil and gas sold		(3,319)	(15,563)
Net gain/(loss) on sale of oil and gas		(3,105)	30,418
Other income		9,117	20,242
Government grant		27,226	-
Employee benefit expenses		(29,672)	(47,403)
Professional and consultancy fees		(42,530)	(127,451)
Marketing and travel expenses		(20,141)	(107,842)
Corporate expenses		(21,253)	(17,298)
Directors' fees		(147,042)	(187,725)
Administrative expenses		(30,739)	(56,865)
Share based payment expense	6	(14,676)	-
Exploration expenditure		(89,581)	(192,239)
Impairment on oil and gas properties reallocated to held for sale		-	(205,757)
Impairment of consideration receivable	3a)	(38,006)	-
Depletion expense		-	(27,392)
Other expenses		(5,499)	(20,892)
Gain on sale of Oil and Gas Property	3a)	231,731	145,749
Finance costs		(551)	(2,765)
Loss before income tax		(174,721)	(797,220)
Income tax benefit		-	-
Loss after income tax		(174,721)	(797,220)
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation differences, net of tax		(12,200)	(1,127)
Other comprehensive income/(loss) (net of tax) for the period		(12,200)	(1,127)
Total comprehensive (loss) attributable to owners of the Company		(186,921)	(798,347)
		Cents	Cents
Basic earnings / (loss) per share		(0.01)	(0.05)
Diluted earnings / (loss) per share		(0.01)	(0.05)

The accompanying notes form part of these consolidated interim financial statements.

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Consolidated Interim Financial Report 30 June 2020

Consolidated Statement of Financial Position

As at 30 June 2020

	Note	30-June-20 \$	31-Dec-19 \$
CURRENT ASSETS			
Cash and cash equivalents		1,469,898	1,850,954
Trade and other receivables		56,588	81,103
Prepayments		15,424	17,990
Security deposit		72,707	71,292
Assets held for sale	3a)	-	35,646
Total Current Assets		1,614,617	2,056,985
NON CURRENT ASSETS			
Exploration and evaluation assets		341,137	341,137
Total Non-Current Assets		341,137	341,137
TOTAL ASSETS		1,955,754	2,398,122
CURRENT LIABILITIES			
Trade and other payables		69,717	138,107
Provisions		34,608	29,066
Liabilities held for sale	3b)	-	207,275
Total Current Liabilities		104,325	374,448
NON-CURRENT LIABILITIES			
Total Non-Current Liabilities		-	-
TOTAL LIABILITIES		104,325	374,448
NET ASSETS		1,851,429	2,023,674
CONTRIBUTED EQUITY			
Issued share capital	5	38,183,402	38,183,402
Reserves		2,859,992	2,857,516
Accumulated losses		(39,191,965)	(39,017,244)
TOTAL EQUITY		1,851,429	2,023,674

The accompanying notes form part of these consolidated interim financial statements.

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Consolidated Statement of Changes in Equity

For the half year ended 30 June 2020

	Issued Share capital	Share based payment reserve	Foreign Currency Translation Reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$
Balance at 1 January 2020	38,183,402	200,355	2,657,161	(39,017,244)	2,023,674
Total comprehensive loss for the period					
Loss after income tax expense for the period	-	-	-	(174,721)	(174,721)
Foreign exchange translation differences	-	-	(12,200)	-	(12,200)
Total comprehensive loss for the period	-	-	(12,200)	(174,721)	(186,921)
Issue of shares, net of transaction costs	-	-	-	-	-
Share based payments	-	14,676	-	-	14,676
Balance at 30 June 2020	38,183,402	215,031	2,644,961	(39,191,965)	1,851,429
Balance at 1 January 2019	36,726,948	200,355	2,658,528	(37,499,951)	2,085,880
Total comprehensive loss for the period					
Loss after income tax expense for the period	-	-	-	(797,220)	(797,220)
Foreign exchange translation differences	-	-	(1,127)	-	(1,127)
Total comprehensive loss for the period	-	-	(1,127)	(797,220)	(798,347)
Transactions with owners, recorded directly in equity					
Issue of shares, net of transaction costs	1,456,662	-	-	-	1,456,662
Payment of unclaimed small lot process funds	(208)	-	-	-	(208)
Balance at 30 June 2019	38,183,402	200,355	2,657,401	(32,297,171)	2,743,987

The accompanying notes form part of these consolidated interim financial statements.

TALON PETROLEUM LIMITED**Consolidated Interim Financial Report 30 June 2020****Consolidated Statement of Cash Flows**

For the half year ended 30 June 2020

	30-June-20 \$	30-June-19 \$
Cash flows from operating activities		
Cash receipts from customers	7,289	45,867
Payments to suppliers and employees	(344,060)	(587,716)
Payment of exploration and expenditure	(89,581)	(192,239)
Interest received	9,117	20,242
Government grant received	27,226	-
Net cash used in operating activities	(390,009)	(713,846)
Cash flows from investing activities		
Proceeds from sales of exploration lease	10,858	28,312
Net cash provided by investing activities	10,858	28,312
Cash flows from financing activities		
Proceeds from the issuance of shares	-	1,250,000
Share issue costs	-	(93,338)
Repayment of unclaimed small lot process funds	-	(208)
Net cash provided by financing activities	-	1,156,454
Net increase/(decrease) in cash and cash equivalents	(379,151)	470,920
Cash and cash equivalents at beginning of period	1,850,954	2,158,297
Foreign exchange movement of cash	(1,905)	(21,453)
Cash and cash equivalents at end of period	1,469,898	2,607,764

The accompanying notes form part of these consolidated interim financial statements.

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Notes to the Consolidated Financial Statements

For the half year ended 30 June 2020

NOTE 1. CORPORATE INFORMATION

Talon Petroleum Limited (the "Company" or "Talon") is a company domiciled in Australia whose shares are publicly listed on the ASX (ASX code: TPD). The consolidated interim financial report of the Company as at and for the half-year period ended 30 June 2020 comprises the Company and its subsidiaries (together referred to as the "Group").

This consolidated interim financial report was approved by the Board of Directors on 11 September 2020.

Talon is a Company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The principal activity of the Group during the half year was to execute and develop its UK North Sea strategy.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of Compliance

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

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated financial report of the Group as at and for the year ended 31 December 2019, and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The consolidated annual financial report of the Group as at and for the year ended 31 December 2019 is available upon request from the Company's registered office at 1202 Hay Street, West Perth WA 6005 or at www.talonpetroleum.com.au.

b. Basis of Preparation

The condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2019 annual financial report for the financial year ended 31 December 2019, except for the below policies listed and the impact of the Standards and Interpretations below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Government grants

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2020

c. New accounting standards and interpretations

Accounting standards that are mandatorily effective for the current reporting period

The Company has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 January 2020.

d. 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 \$174,721 (2019: \$797,220) in the half year ended 30 June 2020. The Group has cash on hand of \$1,469,898 as at 30 June 2020 (2019: \$1,850,954) and net cash operating outflows were \$390,009 (2019: \$713,846) for the six-month period ended 30 June 2020.

Subsequent to the end of the period, the company successfully raised A\$5 million through a placement to sophisticated and institutional investors, providing funding for the Perth Basin farm-in with Strike and to progress its UK North Sea exploration portfolio.

Management has prepared cash flow projections for the period to 30 September 2021 that support the ability of the Group to continue as a going concern. These projections assume the Group maintains its expenditure in line with available funding to enable it to continue as a going concern and pay its debts as and when they fall due.

e. Estimates

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

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the company based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the company operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the company unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Key estimate: Capitalised Exploration Expenditure

Exploration and evaluation costs have been capitalised on the basis that the Group will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

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Notes to the Consolidated Financial Statements

For the half year ended 30 June 2020

Upon approval for the commercial development of an area of interest, accumulated expenditure for the area of interest is transferred to mining assets.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 December 2019.

f. Segment reporting

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

The Group operates within one business segment (the petroleum exploration and production industry) and one geographical segments, the United Kingdom ('UK').

Geographical information

The geographical locations of the Group's non-current assets are in the UK.

Seasonality and cyclicalities

The Group's gas prices received may be indirectly affected by seasonal impacts on demand and other factors including storage levels and well location in relation to infrastructure. Oil prices are determined globally and are impacted by world events, storage, production and infrastructure.

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

NOTE 3. HELD FOR SALE ASSETS/LIABILITIES

	30-Jun-20	31-Dec-19
	\$	\$
a. Assets classified as held for sale		
Balance at 1 January	35,646	-
Impairment of consideration receivable	(38,006)	-
Recognition of held for sales assets	-	35,646
Foreign exchange translation	2,360	-
	-	35,646
b. Liabilities classified as held for sale		
Balance at 1 January: Oil and gas properties – restoration provision	(207,275)	-
Gain on sale of oil and gas property	231,731	-
Recognition of held for sale liability	-	(207,275)
Foreign exchange translation	(24,456)	-
	-	(207,275)

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Notes to the Consolidated Financial Statements

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During the period the board resolved with the current oil price environment, given the relevant lease was no longer a required asset, the outstanding balance amounting USD\$25,000 due to be received has been impaired.

NOTE 4. COMMITMENTS AND CONTIGENCIES

On 25 January 2019 the Company entered into a Heads of Agreement to acquire 100% of Encounter Oil Ltd ('Encounter') which holds a 100% interest in the Skymoos and Rocket prospects. The asset acquisition included performance based consideration, being 300m class A and B performance shares, contingent on achieving two milestones as per below.

Performance shares

Class	# Performance shares	Milestone	Expiry
A	150m	On achieving a farm-in/JV for funding of Skymoos from a Phase A to Phase C programme	30/09/2021
B	150m	On achieving a farm-in/JV for funding of Rocket from a Phase A to Phase C programme	30/09/2021

The terms and conditions pertaining to the performance shares state that conversion is contingent upon meeting the above milestones; if the milestone is not achieved the amount of performance shares pertaining to the milestone will be redeemed by TPD for \$0.000001 per performance share.

The performance shares are unlisted and gives the holder the rights to attend general meetings of shareholders of Talon, but do not entitle the holder to vote on any resolutions proposed at a general meeting, nor does it entitle the holder to any dividends or participation in any new issues of capital offered to holders of the Ordinary Shares, such as bonus issues and entitlement issues; the shares may not participate in the surplus profits or assets of the Company upon winding up, and they are not transferrable. Upon conversion however, new fully paid ordinary shares issued will rank equally in all respects with fully paid ordinary shares.

NOTE 5. SHARE CAPITAL

	30-Jun-20	31-Dec-19	30-Jun-20	31-Dec-19
	Ordinary shares (number)	Ordinary shares (number)	\$	\$
On issue at 1 January	1,776,789,525	1,776,789,525	38,183,402	38,183,402
On issue at end of period – fully paid	1,776,789,525	1,776,789,525	38,183,402	38,183,402

TALON PETROLEUM LIMITED

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Notes to the Consolidated Financial Statements

For the half year ended 30 June 2020

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

		Issue price \$	Amount \$
	Number of shares		
	Balance at 1 January 2019	1,260,122,858	36,726,948
18 March 2019	Placement to professional and sophisticated investors ¹	416,666,667	1,250,000
07 May 2019	Repayment of unmarketable small lot fund ²		(208)
15 May 2019	Share issued to vendor ³	100,000,000	300,000
	Less: Costs of issue		(93,338)
	Closing balance at 31 December 2019	1,776,789,525	38,183,402

¹ On 18 March 2019 the Company issued 416,666,667 ordinary shares at \$0.003 per share through a placement to professional and sophisticated investor

² On 7 May 2019 the Company repaid \$208 of unclaimed monies in connection with the small lot process which was completed in May 2015; the unclaimed money was repaid to the holder in accordance with its constitution.

³ On 15 May 2019 the Company issued 100,000,000 ordinary shares at \$0.003 per share to the vendor of Encounter oil Limited (refer note 4).

Date	Details	Issue price \$	Amount \$
	Number of shares		
	Balance at 1 January 2020	1,776,789,525	38,183,402
	Closing balance at 30 June 2020	1,776,789,525	38,183,402

NOTE 6. SHARE-BASED PAYMENTS

Share-based payments, including options and performance rights are granted at the discretion of the Board to align the interest of executives, employees and consultants with those of shareholders.

The company granted 117,500,000 Rights in four classes to certain Directors of the Company on 29 May 2020, after receiving shareholder approval at the Company's AGM.

The terms attached to the Rights are summarised in the table below:

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Terms	Class A	Class B	Class C	Class D
Number	38,750,000	38,750,000	20,000,000	20,000,000
Valuation Date	29-May-20	29-May-20	29-May-20	29-May-20
Exercise Price	Nil	Nil	Nil	Nil
Barrier Price	\$0.003	\$0.00485	Nil	Nil
Vesting Date	30-Jun-21	30-Jun-21	31-Dec-21	31-Dec-22
Expiry Date	30-Jun-25	30-Jun-27	30-Jun-25	30-Jun-26

The share price milestones attached to Class A and B Rights and operational milestones attached to Class C and D Rights. The vesting conditions attached to each class are summarised as follows:

- Class A Rights will vest when the volume weighted average price ("VWAP") of the Company's shares, as traded on the ASX over a 20-day trading period exceeds "Vesting Price A" at any time after the date of the AGM but prior to 30 June 2022. Vesting price A is the greater of \$0.003 and 200% of the 20-day VWAP immediately prior to the date of the AGM, being \$0.00242;
- Class B Rights will vest when the volume weighted average price ("VWAP") of the Company's shares, as traded on the ASX over a 20-day trading period exceeds "Vesting Price B" at any time after the date of the meeting but prior to 30 June 2024. Vesting price B is 400% of the 20-day VWAP immediately prior to the date of the AGM, being \$0.00485;
- Class C Rights will vest when, prior to 31 December 2021 the Company completes a successful farm-out transaction in respect of one of the Company's projects and the Company elects to move into the drilling phase in respect of the licence the subject of the farm-out; and
- Class D Rights will vest when the vesting condition for Class C Rights are satisfied; and prior to 31 December 2022, the Company completes a successful farm-out transaction in respect of one of the Company's projects (not being the project the subject of the satisfaction of the Vesting Condition for the Class C Rights) and the Company elects to move into the drilling phase in respect of the licence the subject of the farm-out. The Group has estimated expected achievement date of each class and vested the expense accordingly.

Fair value of performance rights granted in the year

The vesting conditions attached to Class A and B Rights meet the definition of a market condition, as the vesting of the Rights is dependent on the future market price of the Company's ordinary shares; and

The vesting conditions attached to Class C and D Rights do not meet the definition of a market condition, as the vesting of the Rights is not dependent on the future market price of the Company's ordinary shares

Therefore, in determining the value of the Rights we have used:

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- the Hoadley Trading & Investment Tools ("Hoadley") ESO5 option valuation model in valuing the Class A and B Rights; and
- the Hoadley ESO2 option valuation model in valuing the Class C and D Rights.

In addition, we understand the Class A and Class B Rights have service conditions attached to them which requires the Right holder to be employed or engaged as at 30 June 2021.

Further information on Hoadley's employee option valuation models can be found at www.hoadley.net.

Rights valuation assumptions in the table below:

Assumptions	Class A	Class B	Class C	Class D
Valuation Date	29-May-20	29-May-20	29-May-20	29-May-20
Spot Price	\$0.002	\$0.002	\$0.002	\$0.002
Exercise Price	Nil	Nil	Nil	Nil
Expiry Date	30-Jun-25	30-Jun-27	30-Jun-25	30-Jun-26
Barrier Price	\$0.003	\$0.00485	Nil	Nil
Vesting Date	30-Jun-21	30-Jun-21	31-Dec-21	31-Dec-22
Expected Future Volatility	100%	100%	100%	100%
Spot Price	\$0.002	\$0.002	\$0.002	\$0.002

Valuation

Based on the methodology and assumptions set out in this report, we summarise below our assessment of the fair value of the Rights as at the **Valuation Date in the table below**.

Table 3 Fair value of the Rights

	Class A	Class B	Class C	Class D	Total
Number	38,750,000	38,750,000	20,000,000	20,000,000	117,500,000
Value per Right	\$0.00177	\$0.00179	\$0.002	\$0.002	N/A
Value	\$68,588	\$69,363	\$40,000	\$40,000	\$217,950

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Expense arising from share-based payment

	30-Jun-20	31-Jun- 19
	\$	\$
Performance rights	14,676	-
Total share-based payments recognised in reserves	14,676	-

NOTE 7. DIVIDENDS

There are no dividends paid or declared during the period.

NOTE 8. SUBSEQUENT EVENTS

Subsequent to the end of the period, and in conjunction with the move to farm-in to EP447 in the Perth Basin, the Company appointed Mr David Casey to the position of Managing Director. Under Mr Casey's Executive Services Agreement, he will receive a total Salary of A\$250,000 (plus statutory superannuation). Mr Casey will also receive an incentive package which included a package of Performance Rights in an amount of 327,678,952, subject to specific vesting criteria.

In another development subsequent to the end of the period, Talon successfully raised A\$5 million through a placement to sophisticated and institutional investors, providing funding for the Perth Basin farm-in with Strike and to progress its UK North Sea exploration portfolio

The issue of 444,197,380 shares as Tranche 1 of the placement was completed in late July.

Shareholders voted on Tranche 2 of the placement and the issue of the free-attaching options at a general meeting held 8 September 2020, all resolutions were passed and decided by way of poll. Shares were issued on 11th September 2020 following \$4,111,605 received to the Company's bank account.

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has not significantly impacted the entity up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

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

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Directors' Declaration

The Directors of the Company declare that:

1. the interim financial statements and notes, are in accordance with the *Corporations Act 2001* and:
 - a) comply with Australian Accounting Standard AASB134 Interim financial reporting and the Corporations Regulations 2001; and
 - b) give a true and fair view of the Consolidated entity's financial position as at 30 June 2020 and its performance for the half year ended on that date; and
2. in the Directors' opinion 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 is made in accordance with a resolution of the Board of Directors, pursuant to s 303(5) of the Corporations Act.



Peter Stickland
Non-Executive Chairman
Dated 11 September 2020

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Talon Petroleum Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Talon Petroleum Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the Corporations Act 2001 including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of 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 (including Independence Standards) (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001 which has been given to the directors of the Company, would be the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the directors for the financial report

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

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Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 30 June 2020 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Dean Just', positioned below the printed name.

Dean Just

Director

Perth, 11 September 2020

TALON PETROLEUM LIMITED

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Glossary

AASB	Australian Accounting Standards Board or, if the context requires, an Australian Accounting Standard adopted by it
AGM	Annual General Meeting
ASX	ASX Limited (ACN 008 624 691) or, if the context requires, the securities market operated by it
boe	barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 barrel of oil equivalent)
Company or Talon	Talon Petroleum Limited (ABN 88 153 229 086)
Corporations Act	<i>Corporations Act 2001</i> (Cth)
Director	director of the Company
Group	Talon and its subsidiaries
m	meters
mbbl	thousand barrels
mboe	thousand barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 boe)
mmbo	million barrels of oil
mmcf	million cubic feet
Share	fully paid ordinary share in the capital of the Company
WI	working interest, a cost bearing interest of an oil and gas project

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