



Notice of Annual General Meeting

Notice is given that the first Annual General Meeting of Talon Petroleum Limited (**Company**) will be held at the offices of Minter Ellison, Lawyers, Level 22, Waterfront Place, 1 Eagle Street, Brisbane, Queensland at **11.00 am (Brisbane time) on Thursday 30 May 2013.**

Agenda

Ordinary Business

1 Annual Financial Report and Directors' and Auditor's Reports

To receive and consider the Annual Financial Report, including the Directors' Declaration, for the period ended 31 December 2012 and the associated Directors' Report and Auditor's Report.

2 Resolution 1 - Re-election of Director

To consider and if thought fit, pass the following resolution as an ordinary resolution:

"That Mr Angus Douglas, having been appointed in accordance with clause 56.1 of the Company's constitution, offers himself for re-election and being eligible for re-election, is re-elected as a Director of the Company."

3 Resolution 2 - Re-election of Director

To consider and if thought fit, pass the following resolution as an ordinary resolution:

"That Mr Jeffrey Forbes, having been appointed in accordance with clause 56.1 of the Company's constitution, offers himself for re-election and being eligible for re-election, is re-elected as a Director of the Company."

4 Resolution 3 - Issue of Unlisted Options to Mr Clifford S Foss Jr

To consider and if thought fit, pass the following resolution as an ordinary resolution:

"That for the purposes of Chapter 2E and section 195(4) of the Corporations Act 2001 (Cth), Listing Rule 10.11 and for all other purposes, the shareholders approve the issue of 3,400,000 incentive unlisted options to acquire fully paid ordinary shares in the Company to Mr Clifford Foss, a Director of the Company, to be exercised at a price per option and on the terms set out in the Explanatory Statement."

Voting Exclusion Statement

The Company will disregard any votes cast in respect of Resolution 3 by Mr Clifford S. Foss Jr, and any associate of Mr Foss.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

You may be liable for breach of the voting restrictions in the *Corporations Act 2001* (Cth) (*Corporations Act*) if you cast a vote that the Company disregards.

5 Resolution 4 - Issue of Unlisted Options to Wandoo Energy LLC

To consider and if thought fit, pass the following resolution as an ordinary resolution:

"That for the purposes of Chapter 2E and section 195(4) of the Corporations Act 2001 (Cth), Listing Rule 10.11 and for all other purposes, the shareholders approve the issue of 1,200,000 unlisted options to acquire fully paid ordinary shares in the Company to Wandoo Energy LLC, being a company associated with Director of the Company, Mr David Mason, to be exercised at a price per option and on the terms set out in the Explanatory Statement."

Voting Exclusion Statement

The Company will disregard any votes cast in respect of Resolution 4 by Mr David Mason and any associates of Mr David Mason.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

You may be liable for breach of the voting restrictions in the *Corporations Act* if you cast a vote that the Company disregards.

6 Remuneration Report

The requirement to include a report on a company's remuneration policies in the directors' report to be considered by members at an annual general meeting only applies to listed companies. The Company was not a listed company for the entirety of the period ended 31 December 2012 to which its Annual Financial Report and associated Directors' Report and Auditor's Report relate. Shareholders will have an opportunity to consider such a report in relation to the current financial year at the Company's next annual general meeting.

7 Resolution 5 – Appointment of Auditor

To consider and if thought fit, pass the following resolution as an ordinary resolution:

“That KPMG of Riparian Plaza, 71 Eagle Street Brisbane who has been duly nominated and has consented in writing to be appointed auditor of the Company.”

Proxies

A member entitled to attend and vote at the meeting is entitled to appoint another person as the member's proxy to attend and vote for the member at the meeting. A proxy need not be a member of the Company. A member who is entitled to cast two or more votes may appoint up to two proxies and may specify the proportion or number of votes that the proxy may exercise. If no such specification is given and two proxies are appointed, each may exercise half of the votes to which that member is entitled.

The proxy form must be signed by the member or the member's attorney, duly authorised in writing. Proxies by a company must be executed in accordance with its constitution.

To be valid, the signed proxy form (together with an original or certified copy of the power of attorney – if applicable) must be received by the Company:

- by lodging at Level 9, 46 Edward Street, Brisbane, Queensland;
- by post at GPO Box 402 Brisbane 4001; or
- by facsimile on (07) 3211 0133,

so as to be received by 11.00am (Brisbane time) on Tuesday, 28 May 2013, being not less than 48 hours before the time for holding the meeting.

A proxy form accompanies this Notice of Meeting.

Voting Entitlements

The time for determining voting entitlements for the meeting will be 7.00pm (Brisbane time) on Tuesday, 28 May 2013. Accordingly, shareholdings registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

By Order of the Board



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Anastasia Maynes
Company Secretary
15 April 2013

Explanatory Memorandum to Shareholders

This Explanatory Memorandum has been prepared for the information of the shareholders of Talon Petroleum Limited in connection with the business to be conducted at the Annual General Meeting of shareholders to be held on Thursday 30 May 2013 (**AGM**).

This Explanatory Memorandum should be read in conjunction with the accompanying Notice of Meeting.

Agenda Item 1- Annual Financial Report and Directors' and Auditor's Reports

The Corporations Act requires the Company's financial statements and reports for the last financial year to be laid before the Annual General Meeting. While no resolution is required in relation to this item, shareholders will be given the opportunity to ask questions and to make comments on the financial statements and reports.

Agenda Item 2 – Re-election of Director (Resolution 1)

2.1 Re-election of Mr Angus Douglas as Director

In accordance with clause 56.1 of the Company's constitution, Mr Douglas was appointed during the course of the year and being eligible offers himself for re-election. Mr Douglas' experience and qualifications are set out below.

Angus Douglas
Age 67 Non-Executive Director

Angus Douglas joined the Board on 18 March 2013.

Mr Douglas has been involved in the investment industry for over 45 years in Australia, Canada and the UK. During this time his focus has been on companies involved in mining and the oil and gas industry, where he has been actively involved in raising capital.

While Mr Douglas has also been a board member of several public and private companies and associations, including Jarden Morgan, Bond University, PRD Nationwide and Golden Valley Mines, he has held no Directorships of listed public companies within the last three years.

Mr Douglas is currently a senior investment advisor with RBS Morgans Limited.

2.2 Board Recommendation

The election of Mr Douglas is recommended by the Board (except for Mr Douglas).

Agenda Item 3 – Re-election of Director (Resolution 2)

3.1 Re-election of Mr Jeffrey Forbes as Director

In accordance with clause 56.1 of the Company's constitution, Mr Forbes was appointed during the course of the year and being eligible offers himself for re-election. Mr Forbes' experience and qualifications are set out below.

Jeffrey Forbes
Age 60 Non-Executive Director

Jeffrey Forbes joined the Board on 4 April 2013.

Mr Forbes has recently retired as an Executive Director, CFO and Company Secretary of Cardno Limited, an ASX200 listed global infrastructure company with a market capitalization of around \$1 billion. Mr Forbes was heavily involved in the growth of Cardno and in particular its expansion into the USA, where it generates over 50% of its revenue.

Prior to joining Cardno, Mr Forbes worked in the mining and resources sector for over 30 years. Mr Forbes has significant experience in the financing and development of resource projects in both Australia and the Asia Pacific region. He has held senior positions both domestically and internationally.

3.2 Board Recommendation

The election of Mr Forbes is recommended by the Board (except for Mr Forbes).

Agenda Item 4 - Issue of Unlisted Options to Mr Clifford S Foss Jr (Resolution 3)

4.1 General

The Company has agreed, subject to the passing of Resolution 3 to allot and issue 3,400,000 incentive unlisted options to acquire fully paid ordinary shares in the Company to Mr Clifford S Foss Jr (**Mr Foss**) on the terms and conditions described below.

The purpose of the issue of the incentive unlisted options to Mr Foss is to grant an incentive to provide dedicated and ongoing commitment and effort to the Company. The issue of options as part of the remuneration package of chief executives is an established practice of junior public listed companies and has the benefit of conserving cash whilst rewarding the option holder for success.

Chapter 2E of the Corporations Act and ASX Listing Rule 10.11 require shareholder approval to be obtained for the issue of options to directors.

4.2 Approval under Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act prohibits the Company from giving a financial benefit to a related party of the Company unless:

- (a) the giving of the financial benefit falls within one of the exceptions set out in sections 210-216 of the Corporations Act (none of which are relevant in the present circumstances); or
- (b) shareholder approval is obtained prior to the giving of the financial benefit and the benefit is given within 15 months after the approval.

A 'related party' for the purposes of Chapter 2E of the Corporations Act includes a director of a public company.

A 'financial benefit' for the purposes of Chapter 2E of the Corporations Act is defined widely. It includes the public company granting an option over its securities.

Accordingly, for the purposes of Chapter 2E of the Corporations Act, Mr Foss is a 'related party' and the issue of options over the Company's securities constitutes a 'financial benefit' which requires shareholders approval.

4.3 Approval under ASX Listing Rule 10.11

Listing Rule 10.11 requires a listed company to obtain shareholder approval by ordinary resolution prior to the issue of securities (including options) to a related party of the company.

By virtue of his position as a director, Mr Foss is a related party of the Company. Accordingly, shareholder approval is required for the issue of options to Mr Foss under Listing Rule 10.11.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue Mr Foss the incentive unlisted options to acquire fully paid ordinary shares in the Company as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of these incentive unlisted options to Mr Foss will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

The information provided below sets out the material terms of the options and is required under Listing Rule 10.13 for the purpose of obtaining shareholder approval under Listing Rule 10.11.

4.4 Terms and conditions of Options to be issued to Mr Clifford S Foss Jr

4.4.1 Issue

If the issue of options to Mr Foss is approved by shareholders, the Company will issue three million, four hundred thousand (3,400,000) options (**Share Options**, each a **Share Option**) to subscribe for fully paid ordinary shares in the Company (**Shares**). Each Share Option will entitle Mr Foss to subscribe for one Share. The Share Options shall be issued in three (3) tranches as follows:

- (a) one million, two hundred thousand options (1,200,000) which vest on, and are exercisable on and from the earlier of:
 - (i) the day on which the volume weighted average price of the Shares on the ASX over the previous 10 consecutive trading days exceeds 200% of the Exercise Price; or
 - (ii) the first anniversary of the Start Date (being 7 March 2013);
- (b) one million, one hundred thousand options (1,100,000) which vest on, and are exercisable on and from the earlier of:
 - (i) the day on which the volume weighted average price of the Shares on the ASX over the previous 10 consecutive trading days exceeds 300% of the Exercise Price; or
 - (ii) the second anniversary of the Start Date; and
- (c) one million, one hundred thousand options (1,100,000) which vest on, and are exercisable on and from the earlier of:
 - (i) the day on which the volume weighted average price of the Shares on the ASX over the previous 10 consecutive trading days exceeds 400% of the Exercise Price; or
 - (ii) the third anniversary of the Start Date.

The Share Options are not transferable.

4.4.2 Exercise Price

The Share Options are exercisable at \$0.0675, being the price which is equal to the volume weighted average price of the Shares on the ASX over the 20 trading days commencing on the first day of normal trading on 14 March 2013 of the Shares following the admission of the Company to the official list of the ASX (**Exercise Price**).

4.4.3 Exercisability of Share Options

- (a) Each tranche of the Share Options may be exercised at any time from the date on which the respective tranche of Share Options vest until the fifth anniversary of the date on which the respective tranche of Share Options vest (each respective period being a **Share Options Term**).
- (b) All unexercised Share Options will lapse at the end of the Share Options Term.
- (c) If there is a change of control of the Company, while Mr Foss remains employed by the Company, any unvested Share Options will vest immediately upon the occurrence of the change of control and will remain exercisable at the Exercise Price until the expiry of the Share Options Term.

4.4.4 Effect of termination of employment on the Share Options

Unless the employment of Mr Foss is terminated for cause, in which case the Share Options, whether vested or unvested, shall terminate immediately, upon termination of Mr Foss' employment:

- (a) any vested but unexercised Share Options will remain exercisable at the Exercise Price until the expiry of the Share Options Term; and
- (b) any unvested Share Options will terminate immediately.

4.4.5 Terms relating to reorganisation of capital, entitlement to participate in new issues, and no conferral of additional benefits

- (a) In the event of a reorganization of the capital of the Company, the rights of Mr Foss (including the number of the Share Option Shares and the Exercise Price) will be changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganization of capital at the time of the reorganisation.
- (b) Mr Foss is not entitled to participate in any new issues or bonus issues without exercising the Share Options.
- (c) If the capital of the Company is reconstructed at any time, the number of Share Option Shares and the Exercise Price will be correspondingly reconstructed in a manner that shall not result in any additional benefits being conferred on Mr Foss that are not conferred on shareholders of the Company.

4.5 Requirements of Chapter 2E of the Corporations Act

In accordance with section 219 of the Corporations Act, the following information is provided to shareholders to allow them to assess whether or not it is in the Company's interests to pass this resolution:

- (a) As previously stated, Mr Foss, as a director, is a related party of the Company.
- (b) The nature of the financial benefit is that, subject to shareholder approval being obtained, the Company intends to allot the Share Options to Mr Foss. The Share Options shall be issued no later than 1 month after the date of the AGM (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated that all of the Share Options will be issued on the same date.
- (c) The directors of the Company are: Dr John Armstrong (Chairman), Mr Foss (Chief Executive Officer, President and Managing Director), Mr David Mason, Mr Angus Douglas and Mr Jeffrey Forbes.

Mr Foss has an interest in Resolution 3 and thus does not offer a recommendation.

Dr Armstrong, Mr Mason, Mr Douglas and Mr Forbes each recommend to shareholders that the issue of the Share Options to Mr Foss be approved as they consider that this issue of Share Options will act as an incentive for Mr Foss to assist the Company to achieve its goals and, if exercised, additional funds will be received by the Company.

Dr Armstrong, Mr Mason, Mr Douglas and Mr Forbes each recognise the disadvantage if Resolution 3 is passed that, in the event that the Share Options are exercised, there will be a dilution of the interests of the shareholders.

A voting exclusion statement is contained on page 2 of the Notice of Meeting in respect of Resolution 3.

- (d) None of the Company directors, with the exception of Mr Foss who has not given any recommendation, has an interest in the outcome of Resolution 3.
- (e) Other than the following information, neither the Company directors nor the Company are aware of any other information that would be reasonably required by members to make a decision in respect of the financial benefits contemplated by Resolution 3.

Current share capital

If the Share Options are issued pursuant to Resolution 3, the Company considers that Mr Foss will have a vested interest in the affairs of the Company. As the early exercise of the Share Options is performance based, Mr Foss has an incentive to ensure that the market price of the Shares increases to create a value in the options and this will benefit all shareholders.

Should the options be exercised, additional funds for working capital will be raised at no significant cost.

Nevertheless, as the primary purpose of the issue of the Share Options is not to raise capital but to provide an incentive to Mr Foss for services he is to provide, the Company does not consider that the issue will involve any significant opportunity cost.

The potential cost to the Company of the issue of the Share Options is that there will be a small dilution of the issued share capital in the event that the Share Options are exercised.

Interests held by Mr Foss

The following table sets out the number of shares and options held by Mr Foss currently and the effect on Mr Foss' shareholding in the Company in the event the Share Options are approved, vest and are exercised.

Current Shares	% shareholding	Current Options	Proposed Share Options	Total shareholding if Share Options exercised	% shareholding if Share Options exercised
31,600	0.03%	Nil	3,400,000	3,431,600	3.50%

Valuation of Share Options

The Share Options have been valued using the Binomial tree model based upon the following assumptions:

- Nominal valuation date: 9 April 2013
- Share price at nominal valuation date: \$0.06
- Risk free rate: 2.82 - 2.95%
- Dividend yield: 0%
- Volatility: 80%
- Expected option life: 3.4 - 5.4 years

Based on these assumptions the tranche 1, tranche 2 and tranche 3 Share Options have been valued at \$0.032, \$0.036 and \$0.039 each, respectively; being \$120,900 in total for all Share Options.

Intended use of the funds

If the Share Options are exercised the funds will be used to augment existing working capital.

Agenda Item 5 - Issue of Unlisted Options to Wandoo Energy LLC (Resolution 4)

5.1 General

The Company has agreed, subject to the passing of Resolution 4 to allot and issue 1,200,000 incentive unlisted options (**Share Options**) to acquire fully paid ordinary shares in the Company (**Shares**) to Wandoo Energy LLC (**Wandoo**) on the terms and conditions described below, in recognition of Wandoo's contribution to the successful demerger of the Company from Texon Petroleum Limited and to incentivise it in respect of future services to be provided to the Company under the Prospect Generation Agreement (as amended).

Chapter 2E of the Corporations Act and ASX Listing Rule 10.11 require shareholder approval to be obtained for the issue of options to related parties.

5.2 Approval under Chapter 2E of the Corporations Act

Pursuant to Chapter 2E of the Corporations Act, the Company cannot give a financial benefit to a related party unless the Company obtains shareholder approval for the giving of the benefit.

A 'related party' includes a director of the Company and any associate of the director. A financial benefit includes issuing securities to a director of the Company including indirectly through an interposed entity.

5.3 Approval under ASX Listing Rule 10.11

Listing Rule 10.11 requires a listed company to obtain shareholder approval by ordinary resolution prior to the issue of securities (including options) to a related party of the company. A related party includes directors of the public company.

Accordingly, shareholder approval is required for the issue of options to Wandoo as Mr Mason who is a director of the Company is also a majority shareholder in Wandoo.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue Wandoo the incentive unlisted options to acquire fully paid ordinary shares in the Company as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of these incentive unlisted options to Wandoo will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

The information provided below sets out the material terms of the options and is required under Listing Rule 10.13 for the purpose of obtaining shareholder approval under Listing Rule 10.11.

5.4 Terms and conditions of Options to be issued to Wandoo

5.4.1 Issue

If the issue of options to Wandoo is approved by shareholders, the Company will issue one million, two hundred thousand (1,200,000) Share Options. Each Share Option will entitle Wandoo to subscribe for one Share. The Share Options will vest immediately upon issue and are transferable.

5.4.2 Exercise Price

The Share Options are exercisable at \$0.0675, being the price which is equal to the volume weighted average price of the Shares on the ASX over the 20 trading days commencing on the first day of normal trading on 14 March 2013 of the Shares following the admission of the Company to the official list of the ASX (**Exercise Price**).

5.4.3 Exercisability of Share Options

- (a) The Share Options expire on the fifth anniversary of the issue of the Share Options (**Exercise Period**).
- (b) The Share Options may only be exercised when the volume weighted average price of the Shares on the ASX over a period of five (5) consecutive trading days exceeds 150% of the Exercise Price (**Price Target**).
- (c) The Share Options may be exercised at any time during the Exercise Period provided that the Price Target has been satisfied or if there has been a change of control of the Company. If there is a change of control of the Company, the Share Options may be exercised at the Exercise Price until the expiry of the Exercise Period.

5.4.4 Terms relating to reorganisation of capital, entitlement to participate in new issues, and no conferral of additional benefits

- (a) In the event of a reorganisation of the capital of the Company, the rights of Wandoo will be changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital at the time of the reorganisation.
- (b) Wandoo is not entitled to participate in any new issues or bonus issues without exercising the Share Options.

- (c) If the capital of the Company is reconstructed at any time, the number of Share Options, Exercise Price and Price Target will be correspondingly reconstructed in a manner that shall not result in any additional benefits being conferred on Wandoo that are not conferred on the shareholders of the Company.

5.5 Requirements of Chapter 2E of the Corporations Act

In accordance with section 219 of the Corporations Act, the following information is provided to shareholders to allow them to assess whether or not it is in the Company's interests to pass this resolution:

- (a) As previously stated, Mr Mason is the majority shareholder in Wandoo. Accordingly, as an associate of a director, Wandoo is a related party of the Company.
- (b) The nature of the financial benefit is that, subject to shareholder approval being obtained, the Company intends to allot the Share Options to Wandoo. The Share Options shall be issued no later than 1 month after the date of the AGM (or such later date as permitted by an ASX waiver or modification of the ASX Listing Rules) and it is anticipated that all the Share Options will be issued on the same date.
- (c) The directors of the Company are: Dr John Armstrong (Chairman), Mr Foss (Chief Executive Officer, President and Managing Director), Mr David Mason, Mr Angus Douglas and Mr Jeffrey Forbes.

Mr Mason has an interest in Resolution 4 and thus does not offer a recommendation.

Dr Armstrong, Mr Foss, Mr Douglas and Mr Forbes each recommend to shareholders that the issue of the Share Options to Wandoo be approved as they consider that this issue of Share Options will act as an incentive for Wandoo to assist the Company to achieve its goals and, if exercised, additional funds will be received by the Company.

Dr Armstrong, Mr Foss, Mr Douglas and Mr Forbes each recognise the disadvantage if Resolution 4 is passed that, in the event that the Share Options are exercised, there will be a dilution of the interests of the shareholders.

A voting exclusion statement is contained on page 2 of the Notice of Meeting in respect of Resolution 4.

- (d) None of the Company directors, with the exception of Mr Mason who has not given any recommendation, has an interest in the outcome of Resolution 4.
- (e) Other than the following information, neither the Company directors nor the Company are aware of any other information that would be reasonably required by members to make a decision in respect of the financial benefits contemplated by Resolution 4.

Current share capital

If the Share Options are issued pursuant to Resolution 4, the Company considers that Wandoo will have a vested interest in the affairs of the Company. As the early

exercise of the Share Options is performance based, Wandoo has an incentive to provide the services they are required to provide under the Prospect Generation Agreement (as amended) to ensure that the market price of the Shares increases to create a value in the options and this will benefit all shareholders.

Should the options be exercised, additional funds for working capital will be raised at no significant cost.

Interests held by Wandoo

Wandoo does not currently hold any shares in the Company. However, the Company proposes to issue up to 4,480,000 Shares to Wandoo in accordance with the Wandoo Interest Acquisition Agreement. This issue of Shares was approved by shareholders of Texon Petroleum Limited prior to the successful demerger of the Company. The Company received a waiver from ASX Listing Rule 10.11 in respect of the issue of these Shares.

In addition, Mr David Mason, being the major shareholder of Wandoo, currently has interest (directly and indirectly) in 3,283,690 Shares, comprising a 3.35% shareholding in the Company.

Nevertheless, as the primary purpose of the issue of the Share Options is not to raise capital but to provide an incentive to Wandoo for services it is to provide, the Company does not consider that the issue will involve any significant opportunity cost.

The potential cost to the Company of the issue of the Share Options is that there will be a small dilution of the issued share capital in the event that the Share Options are exercised.

Valuation of Share Options

The Share Options have been valued using the Monte-Carlo Simulation model based upon the following assumptions:

- Nominal valuation date: 9 April 2013
- Share price at nominal valuation date: \$0.06
- Risk free rate: 2.80%
- Dividend yield: 0%
- Volatility: 80%
- Expected option life: 3.2 years

Based on these assumptions the Share Options have been valued at \$0.032 each; being \$38,400 in total for all Share Options.

Intended use of the funds

If the Share Options are exercised the funds will be used to augment existing working capital.

Agenda Item 6 – Remuneration Report

The requirement to include a report on a company's remuneration policies in the directors' report to be considered by members at an annual general meeting only applies to listed companies. The Company was not a listed company for the entirety of the period ended 31 December 2012 to which its Annual Financial Report and associated Directors' Report and Auditor's Report relate. Shareholders will have an opportunity to consider such a report in relation to the current financial year at the Company's next annual general meeting.

Agenda Item 7 - Appointment of Auditor (Resolution 5)

Subsection 327B(1) of the Corporations Act requires that a company must appoint an auditor at its first annual general meeting. The annual general meeting the subject of this Notice is the first annual general meeting of the Company.

It is proposed that KPMG be appointed as auditor of the Company pursuant to subsection 327B(1) of the Corporations Act.

KPMG has consented to act in this capacity and all other requirements of the Corporations Act in relation to the appointment of auditors.

If Resolution 5 is passed, the appointment of KPMG as the Company's auditor will take effect at the close of the AGM.

If you are attending the meeting – please bring this notice with you

TALON PETROLEUM LTD ABN 88 153 229 086
ANNUAL GENERAL MEETING – 30 May 2013
PROXY FORM

To Appoint a Proxy

Insert the name and address of the person(s) you wish to appoint as your proxy or leave blank if you wish to appoint the **Chairman of the Meeting** as your proxy.

If you are entitled to cast two or more votes you may appoint up to two proxies to attend the meeting and vote on your behalf.

If you appoint a second proxy, state the proportion of your voting rights given to each proxy. If no such proportion is specified, each proxy can exercise half of your voting rights.

Proxies need not be shareholders and shareholders cannot appoint themselves.

_____ (insert name(s) of shareholders)

appoints as First or Sole Proxy _____ (name)

_____ (address)

and appoints as Second Proxy (or leave blank) _____ (name)

_____ (address)

First Proxy: _____ % Second Proxy: _____ %

or in his/her absence the Chairman of the Meeting.

Important for resolutions 3 and 4: If the Chairman of the Meeting is your proxy or may be appointed by default and you have not directed the Chairman how to vote on resolutions 3 and 4 below, please mark the box in this section. If you do not mark this box and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on resolutions 3 and 4 and your votes will not be counted in computing the required majority if a poll is called on those resolutions. The Chairman of the Meeting intends to vote undirected proxies in favour of each of resolutions 3 and 4.

☐ I/We:

(i) acknowledge that the Chairman of the Meeting may exercise my/our proxy even if the Chairman has an interest in the outcome of resolutions 3 and 4 and that votes cast by the Chairman, other than as proxy holder, would be disregarded because of that interest or even if the resolution is connected directly or indirectly with remuneration of a member of the key management personnel of the Company; and

(ii) direct the Chairman to vote in favour of resolutions 3 and 4 if I/we have not marked any of the boxes in respect to any of these resolutions.

If you do not wish to give the Chairman such a directed proxy, you should ensure that a box other than the 'For' box is clearly marked in respect of each of resolutions 3 and 4.

Proxy voting instructions (optional)	Resolutions	For	Against	Abstain
If you wish to direct your proxy how to vote, place a mark in the appropriate box. Otherwise the proxy has discretion as to how to vote. Proxies may vote as they think fit on any procedural resolution voted on at the meeting. If you wish to apportion your votes, a specified number of shares should be written beside the appropriate boxes.	1) Re-election of Mr Angus Douglas as director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	2) Re-election of Mr Jeffrey Forbes as director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	3) Issue of Unlisted Options to Mr Clifford S Foss Jr	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	4) Issue of Unlisted Options to Wandoo Energy LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	5) Appointment of Auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Shareholder to sign

If this proxy is signed by a person who is not the registered shareholder, then the relevant authority (e.g. a power of attorney) or a notarially certified copy of it must either have been exhibited previously to the Company or its registrar or be attached to this form and the signatory declares he has no notice of revocation of that authority.

Individual or Securityholder 1

Director

Securityholder 3

**Director and Sole Secretary/
Sole Director (no Secretary)**
(delete one)

Securityholder 2

Director/Company Secretary
(delete one)

To be valid, the signed proxy form (together with an original or certified copy of the power of attorney – if applicable) must be posted to the Company at GPO Box 402, Brisbane 4001 or lodged with the Company at Level 9, 46 Edward St, Brisbane Australia or by fax +61 7 3211 0133 by 11:00 am on Tuesday, 28 May 2013, being not less than 48 hours before the time for holding the meeting.



TALON PETROLEUM LIMITED

ANNUAL REPORT

**14 SEPTEMBER 2011 –
31 DECEMBER 2012**

ABN 88 153 229 086

Directors

John Armstrong – Chairman
 Clifford S. Foss, Jr.
 Angus Douglas
 David Mason
 Jeffrey Forbes (appointed 4 April 2013)

Secretary

Anastasia Maynes (appointed 4 April 2013)
 Des Olling (retired on 4 April 2013)

Registered and Principal Office

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 46 Edward Street
 Brisbane QLD 4000
 Australia

Share Register

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 117 Victoria Street
 West End Qld 4101
 Australia
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 Facsimile: (61 7) 3237 2152

Solicitors

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GLOSSARY OF TERMS

bbl:	barrels
mbbl:	thousand barrels
bcf:	billion cubic feet
bcfe:	billion cubic feet equivalent
boe:	barrels of oil equivalent (including gas converted to oil equiv barrels on basis of 6mcf to 1 barrel of oil equiv)
bopd:	barrels of oil per day
boepd:	barrels of oil equivalent per day (including gas converted to oil equiv barrels on basis of 6mcf to 1 barrel of oil equiv)
EFS:	Eagle Ford Shale
ft:	feet
IPO:	initial public offering
m:	metres
mcf:	thousand cubic feet
mcfcpd:	thousand cubic feet of gas per day
mmbtu:	million British thermal units
mmcf:	million cubic feet
mmcfcpd:	million cubic feet equivalent of gas per day
mmcfcpd:	million cubic feet of gas per day
mboe:	thousand barrels of oil equivalent (including gas converted to oil equiv barrels on basis of 6mcf to 1 barrel of oil equiv)
mmboe:	million barrels of oil equivalent (including gas converted to oil equiv barrels on basis of 6mcf to 1 barrel of oil equiv)
NGL:	natural gas liquids
NRI:	nett revenue interest
WI:	working interest
WTI Crude:	West Texas Intermediate crude oil
YE:	Year End

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the financial period, which comply with the ASX Corporate Governance Council (CGC) recommendations, unless otherwise stated. The statement was adopted by the Board on 8 February 2013.

1 Board of Directors

Role of the Board

The Board's role, as set out in the Company's Board Charter is to be accountable to shareholders for the guiding and monitoring of the business affairs of the Company.

It fulfils this role by:

- > ensuring that the Company's strategic objectives are met;
- > delegating responsibility for the day to day management of the Company to the Chief Executive Officer;
- > because of the Company's size, assisting the Chief Executive Officer 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 Chief Executive Officer and management on a regular basis.

The Board's Charter which provides details of the Board's role is available on the Company's website on the Company's website at www.talonpetroleum.com.au

Board processes

The Board has established an audit committee which assists the Board in carrying out its responsibilities but has not established a nomination or remuneration committee as recommended by the ASX Corporate Governance Council (CGC). The Board considers that, because of the Company's size, the establishment of other committees would not be cost nor time effective and because the role of these committees is carried out by the Board itself. Recommendations from the Board are carried out by management through the Chief Executive Officer. Further details regarding the audit committee are provided elsewhere in the Directors' Report.

The Board has adopted a Board Charter and Code of Conduct, Continuous Disclosure and Share Trading for Directors and officers. Practices are also in place in respect of Risk Management. Details of these policies are outlined later in this report and the full documents can be found on the Company's website.

With the Company's assets and business operations located in Texas, USA, and the head office in Brisbane, a system of internal control has been established. This system provides a level of assurance to the Board that business transactions undertaken within the Company are subject to certain checks and balances.

The Board does not conduct formal reviews of its Directors or its procedures and governance performance. The small Board of four and the Company's size would make such formal reviews an inappropriate use of the Board's time and the Company's money. The Board does however review the performance of the Chief Executive Officer on a regular basis. The Board will review its position as the Company continues to grow and may increase its number in future years.

The Board reviews the performance of senior executives against the Company's financial and operational performance on a quarterly, half-yearly and annual basis and by presentations to the Board by the Chief Executive Officer at various other times throughout the year. A more formal process for performance reviews of key executives may be considered appropriate in the future.

In the period up to ASX listing of the Company no Board meetings were held since the Company was wholly owned by its parent, Texon Petroleum Ltd. All matters relating to governance of the Group up to the ASX listing on 27 February 2013 were considered and addressed by the Company's parent Texon Petroleum Ltd. Subsequent to listing, formal Board meetings will be held on a regular basis during the year and Directors will most likely hold informal discussions with each other between Board meetings as required. The agenda for these meetings will be prepared by the Chief Executive Officer and the Company Secretary, and Directors may also request items be placed on the agenda. Standing items will include reports on corporate matters, cash resources and projections, actual performance compared with budgets and a review of the operational status of each prospect.

Corporate Governance Statement (continued)**1 Board of Directors (continued)**

Should a new Director be appointed, the Company will ensure that a process of induction is implemented which includes information on the nature of the Company's business, current industry issues, the Board's strategy and expectations concerning the performance of Directors. Directors are also given access to continuing education programs to enhance their skills and knowledge. Newly appointed senior executives will also be provided with an induction process similar to Directors.

Independent professional advice and access to company information

Each Director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may also seek independent professional advice from an advisor suitably qualified in the relevant field at the Group's expense. The Director must consult with such an adviser and obtain the prior approval of the Chairman of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the Director will be made available to all members of the Board.

Composition of the Board

At the time the Company was listed on ASX on 27 February 2013, the Board comprised three Directors, namely, Dr John Armstrong (Chairman), Mr David Mason and Mr Bernard Rowley.

Since then, the Board has undergone a process of renewal whereby Mr Rowley has retired as a Director and the Company has appointed Mr Angus Douglas and Mr Clifford Foss as Directors.

Accordingly, the current Board is comprised of three non-executive Directors, namely, Dr John Armstrong, Mr David Mason and Mr Angus Douglas and one executive Director, Mr Clifford Foss. Details of each Director can be found on page 7. 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 on a rotational basis at annual general meetings.

The ASX CGC recommends that a majority of the Board be independent Directors. With only four Directors and the Company at its present size the Board does not consider it appropriate to have a majority of independent Directors and would not be an efficient use of resources-relevant expertise. Dr Armstrong, Mr Mason as non-executive Directors and Mr Foss as executive director each have strong resource industry experience and expertise which the Board considers more appropriate to the requirements of the Company at this stage of its development. The definition of "independent" has been taken from the ASX CGC recommendation 2.1, however the Board will keep this issue under review.

With respect to the ASX CGC recommendation that the Chairman should be an independent Director, the Board believes, again because of the size of the Company that the experience and background of the current Chairman is of more value to the Company than an independent Director who may not possess the same experience and background.

The Company has no policy regarding the minimum number of hours that Directors are required to commit to the Company's business nor any restriction on the number of other Boards that non-executive Directors may serve on.

2 Audit Committee

The audit committee has a charter which was approved by the Board on 25 February 2013. Dr Armstrong assumed this role for the March 2013 committee meeting as an interim measure but the new Board will elect a permanent Chairman. The committee is attended by the Chief Executive Officer, the Company Secretary and the Financial Controller.

For the reason discussed under 'Composition of the Board' above, the committee did not meet during the period.

Corporate Governance Statement (continued)**2 Audit Committee (continued)**

The committee's responsibilities include:

- (a) overseeing the preparation of the annual and half year financial reports and reviewing the results of external audits of these reports;
- (b) assessing information from the external auditor that affects the quality of financial reports;
- (c) obtaining an independent judgement from the external auditor regarding the appropriateness of accounting principles and disclosure practices used by the company;
- (d) recommending to the Board whether the financial and non-financial statements should be signed based on the committee's assessment of them;
- (e) monitoring the effectiveness and independence of the external auditor and where appropriate making recommendations to the Board on the removal of the external auditor;
- (f) meeting with the external auditor without management present at least once a year.

The Chief Executive Officer and Financial Controller are required to declare in writing to the Board that the financial records of the Company for the financial period have been properly maintained, the Group's financial reports for the period ended 31 December 2012 are in accordance with relevant accounting standards and present a true and fair view, in all material respects, of the Group's financial condition and operational results. This statement is required by the Board twice annually.

The audit committee's charter is available on the Company's website.

3 Risk Management***Oversight of the risk management system***

The Board has adopted a risk management policy which recognises that the Company is a small oil and gas exploration company with limited resources. The policy addresses the management of the major risks facing the Company to ensure that suitable procedures are adopted to protect the assets and undertakings of the Company.

The Chief Executive Officer and Financial Controller have provided written assurance to the Board that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating effectively. The operational and other risk management compliance and controls have also been found to be operating effectively.

Risk profile

The Chief Executive Officer provides the Board with a risk assessment status on a regular basis. These risks include the financial risk of changes in the prices of oil and gas and adverse movements in foreign exchange rates. However the main risk is the risk of not finding, securing and retaining appropriate oil and gas prospects and commercial discoveries that are made from these prospects.

Risk management and compliance and control

The Board considers that absolute compliance with the detailed provisions of the Australian Standard on Risk Management ANZ4360 would not be a responsible use of the Company's limited resources, but requires management to have regard to the general principles of the Australian Standard in managing the Company's risk.

Financial reporting

The Chief Executive Officer and Financial Controller have provided assurance in writing to the Board that the financial reports of the Group are founded on a sound system of risk management, internal compliance and control.

Actual results are reported regularly against budgets approved by the Board and revised forecasts are prepared when appropriate.

Corporate Governance Statement (continued)**3 Risk Management (continued)*****Internal Audit***

Due to its present size and development, the Company does not consider that an internal audit department is warranted. The Board through the Chief Executive Officer relies on system controls in place in the Company.

4 Ethical standards

Directors, managers and employees are expected to act with the utmost integrity in carrying out their respective roles within the Company.

Conflict of interest

Directors must keep the Board informed on an ongoing basis of any interest that could potentially conflict with those of the Company. The Board has developed procedures to assist Directors to disclose potential conflicts of interest. Where a Director believes that there may be an actual or potential conflict of interest which could bring that Director and the Company into conflict, the Director is to disclose the details of such conflict. Where the Board believes that a significant conflict exists for a Director, the Director concerned will not vote on any outcome which arises from that conflict. This matter is described in more detail below in 'Code of Conduct' of the details of such conflict.

Mr Mason has previously disclosed to the Board his position as principal shareholder and founder of Wandoo Energy LLC in the USA. Wandoo has contracted with a data company in the US to provide seismic surveys to Wandoo which, under an agreement with the Company, then provides certain oil and gas prospects to the Company and from which the Company may ultimately drill for oil and gas.

Code of conduct for Directors

A code of conduct for Directors has been adopted and is adhered to by the Board. The code which is incorporated in the Board Charter covers the following:

- 1) Directors acknowledge that they have a fiduciary duty to the Company and must act honestly, in the interests of the Board, the Company and in the utmost good faith.
- 2) Directors are required to disclose all relevant information on matters under consideration by the Board and must not profit or advance their personal interests from their position as a Director.
- 3) Directors must keep the Board advised on an ongoing basis of any personal interest that could potentially conflict with those of the Company. The code provides that when in doubt the Director will adopt a cautious approach and assume that there is a conflict and act accordingly. Directors will not vote on any matter at a Board meeting if they have, or they are perceived to have, a conflict of interest. In this context and in regards to Director Mr David Mason's principal shareholding in Wandoo Energy LLC, such disclosure has been made to the Board. Directors are aware that Wandoo is entitled to an overriding royalty interest and carried working interest in the production of petroleum discovered by the Company and that Dr Armstrong is also entitled to an overriding royalty interest in the production of petroleum discovered by the Company. Details are available in Note 26. This information has also been disclosed in various public documents released by the Company.
- 4) A reasonable degree of care and diligence must be exercised at all times by Directors in the performance of their duties.
- 5) The Chief Executive Officer shall be the principal spokesperson for the Company whenever public comment is required.
- 6) Directors shall treat as confidential all minutes, Board papers and other information of the Company received by the Directors including papers and material forwarded to them for the purposes of Board determination. Directors must not use confidential information gained through their position in the conduct of their affairs to their advantage.

Corporate Governance Statement (continued)**4 Ethical standards (continued)**

7) Any breach of the code by a Director is to be advised in writing to the Chairman.

Share trading policy

The policy is intended to apply to Directors, Chief Executive Officer, Company Secretary, Financial Controller and their spouses and dependents and all other officers or employees having authority and responsibility for planning, directing and controlling the activities of the Company and other officers or employees who may have access to market sensitive information about the Company that has not been released to the market (designated persons).

The key elements of the policy are:

- Trading in the Company's securities is prohibited during the following periods (closed periods):
 - from 1 February of each year until the first trading day after full year results are released to the market;
 - from 1 August of each year until the first trading day after half year results are released to the market;
 - at any time when the Company is involved in a corporate transaction that could materially impact on its share price; or
 - at any time when a designated person is aware of material market sensitive information in relation to the Company's securities that has not been released to the market.
- The Board has determined that trading that occurs in certain circumstances is excluded from the scope of the policy. In addition, a designated person (other than the Chairman) who is not in possession of inside information may be given prior written clearance to deal in the Company's securities in exceptional circumstances. In the case of the Chairman he must seek prior written clearance from the Chief Executive Officer.
- The Company must disclose to the ASX when a Director or related entities of the Director has traded in the Company's securities.
- When trading is permitted, intended trading by designated officers is to be disclosed to the Chief Executive Officer prior to the transactions taking place. Directors are not to trade in the Company's securities at any time without first advising the Chief Executive Officer or Company Secretary of their intention to do so.
- The Company Secretary is to report any trading by designated officers to the Board at its next meeting after the trading has been reported to the Company Secretary together with the steps, if any, to be taken with respect to disclosure of the trading, in accordance with the ASX Listing Rules, the Corporations Act or any other relevant requirements.

5 Diversity

The Company is cognisant of the principles of diversity. The Company has always made its appointments based on merit and understands that an appropriate blend of a diverse range of employees regarding gender, age, ethnic and age diversity in Board positions, senior management or general employees, will provide a diverse range of ideas and views which may assist the Company in achieving its strategies and goals.

At present two women are employed in administrative support positions from a total five employees in both Australia and USA or 40%. The Company has no women on the Board or in senior management positions at this time.

Corporate Governance Statement (continued)**6 Communication with shareholders**

The Board has adopted a Continuous Disclosure policy and complies with its obligations under that policy and in accordance with the ASX Listing Rules. The Board provides shareholders and the market with information that it considers is material to the business of the Company and which may have a material effect on the share price of the Company. Regular market updates are provided so that the market is fully informed and all market releases are posted to the Company's website on the day of the release. Analyst and shareholder briefings are also held and information to be provided at these briefings is released to the ASX prior to the meetings and then posted to the Company's website. The Board is responsible for determining what information is disclosed to the market and whether such information is material for the purposes of the ASX Listing Rules. It also considers whether an exemption applies from disclosure.

The Chief Executive Officer and Company Secretary notify the Board when any information which they have become aware of and which they consider might reasonably require disclosure under the ASX Listing Rules.

The Company also communicates with shareholders in its quarterly reports, half-yearly financial reports, annual financial reports, and at general meetings of shareholders where both the financial and operational aspects of the business are presented. These reports, presentations and other important updates and notices of shareholder meetings are available from 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. They are asked to vote on the election of Directors, a resolution to adopt the Remuneration report and, when necessary the granting of options and shares to Directors, the issue of new fully paid shares in the Company, changes to the Constitution, and related party issues.

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.

DIRECTORS' REPORT

FOR THE PERIOD 14 SEPTEMBER 2011 – 31 DECEMBER 2012

The Directors present their first Directors' report together with the financial report of Talon Petroleum Limited ("the Company" or "Talon Petroleum") and of the Group, being the Company and its subsidiaries, for the period ended 31 December 2012 and the auditor's report thereon.

The Company was incorporated on 14 September 2011 as Texon II Limited and as part of a restructure of the Texon Petroleum Ltd group, became the holding company for the demerged assets from Texon which were approved by Texon shareholders on 25 February 2013 and by the Federal Court of Australia on 27 February 2013, at which time the demerger became effective. The demerger was implemented on 7 March 2013. The Company changed its name to Texon III Ltd on 7 October 2011 and to Talon Petroleum Limited on 26 November 2012. It was admitted to the official list of the ASX on 27 February 2013.

1 Directors

The Directors of Talon Petroleum Limited at any time during or since the end of the financial period are:

Dr John Armstrong PhD, BSc (1st Hons) Geo.

Age – 68

Chairman

Dr Armstrong was appointed a Director and Chairman of the Company on 14 September 2011. He has had a 40 year career in the upstream oil and gas industry including 9 years with UNOCAL in South East Asia and over 20 years in senior management roles at Santos.

Dr Armstrong was executive Chairman of Global Petroleum Limited – an ASX and AIM listed company from 2002 to early 2007, and he formed and was foundation Chairman, and then a Director, of Falkland Oil and Gas Limited, an AIM listed company, from October 2004 to May 2007. Dr Armstrong joined the Board of Mosaic Oil NL from September 2009 until February 2010 when he resigned. In June 2012 Dr Armstrong was appointed Chairman of Aleator Energy Ltd until his resignation on 22 October 2012. Dr Armstrong was a Director and Chairman of Texon Petroleum Ltd from 17 May 2006 until 27 February 2013 following approval by Texon shareholders and the Federal Court of Australia of a Demerger Scheme and Acquisition Scheme.

Prior to becoming Chairman of Global Petroleum Limited, Dr Armstrong was a General Manager at Santos and played an important role in growing Santos from a small local gas company to a company which in 2001 had a market capitalisation of some A\$3.5 billion and annual oil and gas revenue of over A\$1 billion a year from its South Australia, Queensland, Western Australia, Northern Territory, Victoria, Papua New Guinea and United States of America areas of operation. He retired from Santos at the end of 2001.

Throughout his career, Dr Armstrong has worked closely with host country governments, government petroleum companies, the Federal Government and various State Governments in Australia, various regulators, customers, contractors, consultants and joint venture companies as operator and non-operator.

Angus Douglas

Age – 67 Non-Executive Director

Angus Douglas joined the Board on 18 March 2013.

Mr Douglas has been involved in the investment industry for over 45 years in Australia, Canada and the UK. During this time his focus has been on companies involved in mining and the oil and gas industry, where he has been actively involved in raising capital.

While Mr Douglas has also been a board member of several public and private companies and associations, including Jarden Morgan, Bond University, PRD Nationwide and Golden Valley Mines, he has held no Directorships of listed public companies within the last three years.

Mr Douglas is currently a senior investment advisor with RBS Morgans Limited.

DIRECTORS' REPORT (continued)**1 Directors (continued)*****Clifford S. Foss Jr******Age – 65******Chief Executive Officer and President***

Mr Foss was appointed to the Board on 26 March 2013.

Mr Foss was appointed Chief Executive Officer of the Company on 7 March 2013. He was CEO of Texon Petroleum Ltd from 1 December 2011 until he resigned following approval by Texon shareholders and the Federal Court of a Demerger Scheme and Acquisition Scheme.

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

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

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

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

David Mason B App Sc***Age – 52******Non-Executive Director***

David Mason was appointed a Director of the Company on 14 September 2011.

Mr Mason holds a Bachelor of Applied Science Degree (Geophysics) from the Western Australian Institute of Technology.

Mr Mason was a Director of Texon Petroleum Ltd from 17 May 2006 until 27 February 2013 following approval by Texon shareholders and the Federal Court of Australia of a Demerger Scheme and Acquisition Scheme.

Mr Mason founded, and is the principal shareholder of, Wandoo Energy LLC ("Wandoo") in the USA in July 2005. Wandoo has contracted with a data company in the USA to provide seismic surveys to Wandoo which, under an agreement with the Group, then provides it with certain oil and gas prospects from which the Group may ultimately drill for oil and gas. See also under 'Code of Conduct' on page 4 for a discussion on any potential conflict of interest.

DIRECTORS' REPORT (continued)**1 Directors (continued)*****David Mason B App Sc (continued)***

Before his involvement with Wandoo and Talon, Mr Mason worked for 25 years in the oil and gas industry with three multinational companies namely, BHP Petroleum (1982-1986), Petrofina (1987-1996) and Woodside Energy (1996-2005). During this time, he gained experience in petroleum ventures in Australia, South East Asia, North Africa and the USA.

He has held positions in exploration management and as acting General Manager both in Petrofina and Woodside Energy. Throughout his career he has been directly involved in large commercially successful discoveries including Jabiru, Skua, Legendre, Mutineer/Bounty in Australia, three Vietnam fields and the Neptune and Midway fields in the Gulf of Mexico.

Mr Mason opened Woodside's first international exploration office in the USA. As business development team leader he was instrumental in building Woodside's acreage position in the Gulf of Mexico (GOM) to over 250 leases through lease rounds, participation in three joint ventures, and acquiring a 20% ownership of the deepwater GOM Neptune field prior to the drilling of the delineation wells that proved commercial volumes.

He has built and managed exploration teams in three countries, worked closely with consultants, service companies, joint ventures as operator and non-operator, and governments and government petroleum companies under production sharing contracts.

Bernard Rowley***Age – 67******Independent Director***

Bernard Rowley was appointed a Director of the Company on 14 September 2011.

Bernard Rowley was formerly Chairman of Enertrade. The gas assets of Enertrade were sold by the Queensland Government in 2007 and the remaining assets were merged into other Queensland Government owned corporations. Enertrade was a wholesale energy provider owned by the Queensland Government which built, owned and operated the North Queensland Gas Pipeline and its gas compression facility near Moranbah.

Mr Rowley was Chief Executive Officer of Suncorp for 10 years. Prior to that appointment he was general manager for the insurance operations and had previously served in various actuarial and information technology roles.

Mr Rowley is a Director of Australia & International Holdings Limited and was a Director of River City Motorway Limited until 25 February 2011 when an Administrator was appointed. Mr Rowley was a Director of Texon Petroleum Ltd from 31 January 2007 until 27 February 2013 following approval by Texon shareholders and the Federal Court of Australia of a Demerger Scheme and Acquisition Scheme.

Mr Rowley retired from the Board on 18 March 2013.

DIRECTORS' REPORT (continued)

2 Company Secretary

Mr Des Olling, Dip Comm Law, FCIS was appointed Company Secretary of the Company on 14 September 2011. Mr Olling has almost 40 years' experience as a Company Secretary including 20 years with listed public companies in the oil and gas industry.

3 Directors' meetings

There were no Directors' meetings or audit committee meetings held during the period ended 31 December 2012 because Talon Petroleum Limited was a wholly-owned subsidiary of Texon Petroleum Ltd throughout the period.

4 Principal activities

The principal activity during the financial period was to explore for and develop petroleum resources in the USA. The strategy is to focus on low risk oil prospects in mature, well serviced areas.

5 Operating and financial review

Talon assets and operations

On implementation of the Demerger Scheme on 7 March 2013, Talon had a portfolio of exploration and development assets, including production from the Olmos and Wilcox reservoirs, and a growing exploration portfolio in East Texas including projects at Roundhouse, Redfish, Catfish Creek and East Banks.

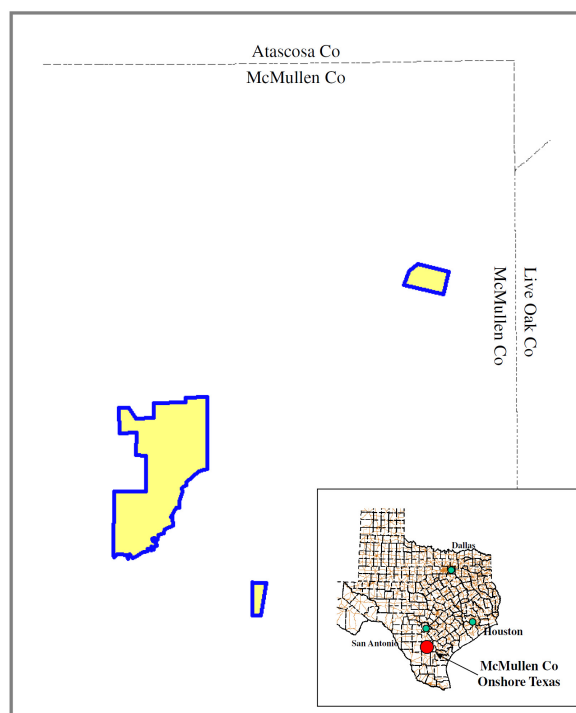
DIRECTORS' REPORT (continued)

5 Operating and financial review (continued)

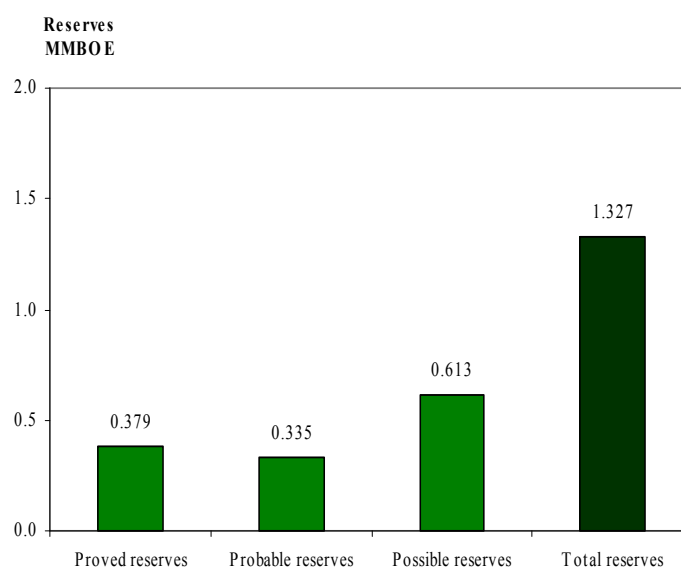
Talon assets and operations (continued)

(a) Olmos

- (i) The Talon Group has leases covering 3,823 net Working Interest acres in the Olmos formation located in McMullen County in Southern Texas. The location of these leases are shown in the map below:

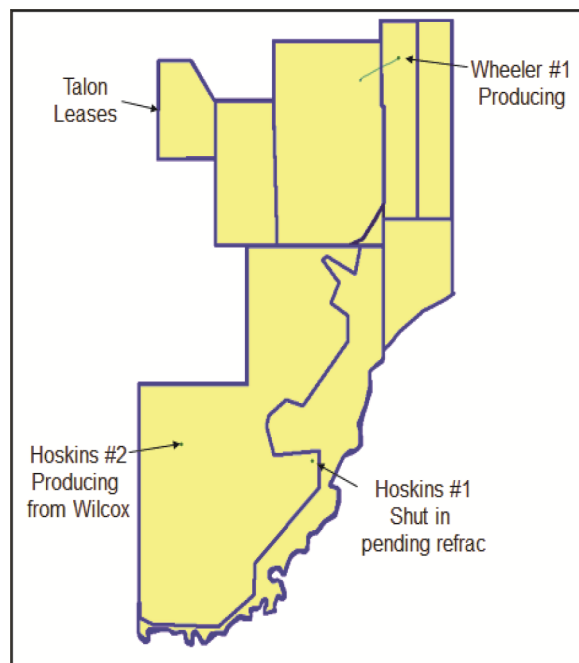


- (ii) This project currently has one producing well (Wheeler #1). Talon holds total Olmos reserves of 1.3 MMBOE (as of 1 August 2012). As shown in the graph below, of these total reserves 379 MBOE are Proved reserves, 335 MBOE are Probable reserves, and 613 MBOE are Possible reserves.



DIRECTORS' REPORT (continued)**5 Operating and financial review (continued)****Talon assets and operations (continued)**

- (iii) Talon anticipates that approximately 29 wells, each draining a 40 acre area, have the potential to be economically developed in the Olmos reservoir. This prospect is very similar in potential to the Leighton-Olmos field previously discovered and monetised by Texon. Talon is currently examining a partial sale and/or farm out of its high Olmos Working Interest which, if successful, will result in an expanded work program in its Olmos project. Should it be implemented, this work program will continue to prove up the total resource potential of 3.0 MMBOE.
- (iv) Talon has two wells in the Olmos reservoir, one is producing and one is shut-in awaiting a refrac. The producing well (Wheeler #1) had an initial test rate of 220 BOEPD. The other Olmos well (Hoskins #1) is completed in the Olmos and is shut in pending a refrac. The locations of Talon's wells are shown in the diagram below:



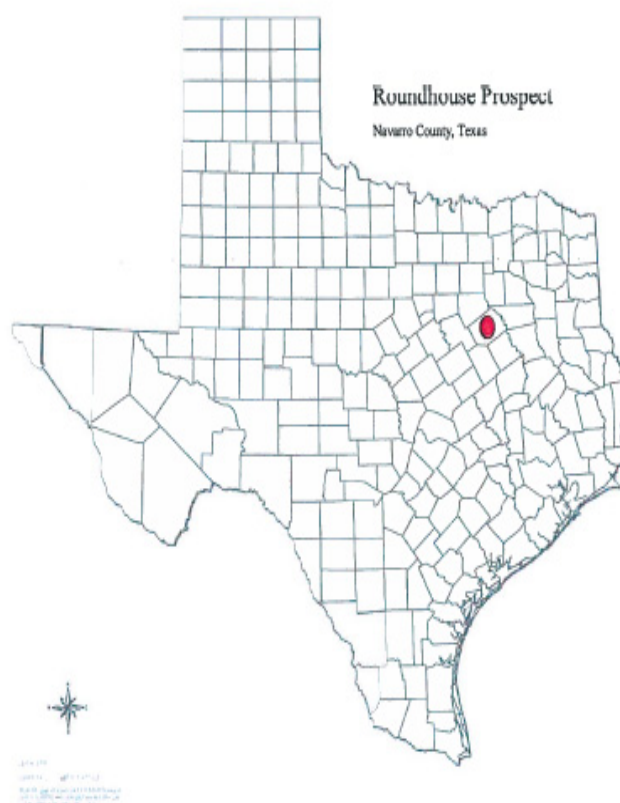
- (v) The acres leased by Talon are also prospective for horizontal drilling and fracture stimulation technologies which are currently being utilised by other operators in the Olmos reservoir around Talon's acreage.

(b) Wilcox

Talon has one producing well in the Wilcox sands, located vertically above the Olmos. The Hoskins #2 Wilcox well is completed in the Wilcox sands and the location of this well is shown in the diagram above.

DIRECTORS' REPORT (continued)**5 Operating and financial review (continued)****Talon assets and operations (continued)****(c) East Texas prospects****(i) Roundhouse**

Talon has 3,510 net Working Interest acres (which equates to a 47.4% Working Interest) in the Roundhouse (Cotton Valley Lime Reservoir) prospect located in Navarro County, Texas. The prospect is operated by private US gas and oil company Tanos Energy Holdings, LLC. The location of the Roundhouse prospect is shown in the map of Texas below:



The East Texas, Cotton Valley Lime play is a naturally fractured oil reservoir in the early stages of development as a new horizontal drilling and completion technology play. The Cotton Valley Lime reservoir has previously been drilled and produced through natural fractures in the adjacent Cheneyboro Field through non stimulated vertical wells. To date, this directly offsetting field has yielded in excess of 3.0 MMBO.

The prospect will be tested by applying modern horizontal drilling and completion technology to intersect multiple naturally occurring fractures within the Cotton Valley Lime reservoir. It is estimated these wells could recover 200-300 MBO per well, with overall gross potential within the prospect of 10-12 MMBO. An initial test well is planned for 2013. A depth structure map of the Cotton Valley Lime reservoir is set out below:

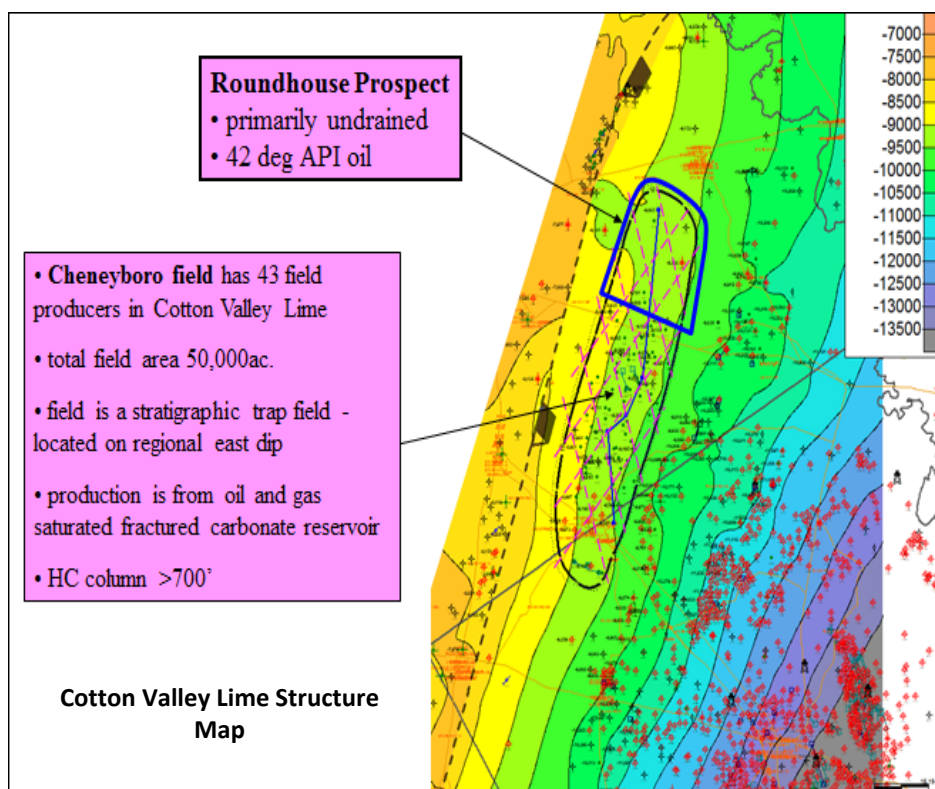
DIRECTORS' REPORT (continued)

5 Operating and financial review (continued)

Talon assets and operations (continued)

(c) East Texas prospects (continued)

(i) Roundhouse (continued)



(ii) Rodessa prospects – Redfish, Catfish Creek and East Banks

These prospects have been defined with well data, 2D seismic data and historical production data.

Extensive land research has been performed and has identified that much of these prospects are currently available for leasing. Talon has already leased 2,917 net Working Interest acres and Talon intends to continue to lease additional acreage towards a goal of 20,000 acres as funding becomes available.

These prospects are targeting a shallow oil reservoir which was previously produced in old vertical wells with little or no reservoir stimulation. Based on 80 acre spacing and Talon's current 2,917 net Working Interest acres, there are 36 locations that between them have gross potential of 4.7 MMBOE and, if targeted programs to obtain leases to the 20,000 acre target are successful, there may be up to 250 locations with a gross potential of 33 MMBOE.

(d) Production

Talon has oil production from two wells located at its Olmos and Wilcox projects in south Texas, being the Wheeler #1 well which commenced production in July 2012 and the Hoskins #2 well which commenced production in January 2012. Talon's production for the period ended 31 December 2012 was 9.6 mboe net to Talon's revenue interest.

DIRECTORS' REPORT (continued)

5 Operating and financial review (continued)

Talon assets and operations (continued)

(e) Other prospects

Talon has leases over other non-core prospects including:

Angourie is a small and low risk amplitude gas prospect with associated liquids. Although relatively small, this prospect can be farmed out to reduce Talon's capital expenditure. The prospect is ready to drill when partners are secured.

Coolangatta is a moderate risk Wilcox gas prospect that is being offered to industry partners on a farmout basis.

(f) Prospect Generation Agreement

Talon is a party to a Prospect Generation Agreement with Wandoo Energy LLC ("Wandoo"), and Director, John Armstrong. Director David Mason is the majority shareholder in Wandoo. Wandoo has access to 180 3D seismic surveys in on-shore oil and gas producing trends in the Texas Gulf Coast under the terms of a licence agreement with Seitel Inc, a company which owns and produces 3D seismic surveys. Talon contracts Wandoo to identify and map prospects exclusively for Talon from within an area of Texas comprising 82,000 square miles from these surveys.

Corporate

Following shareholder approval on 25 February 2013 and approval by the Federal Court of Australia on 27 February 2013, a proposal by Talon's parent entity Texon Petroleum Ltd to demerge by scheme of arrangement and list Talon on the Australian Stock Exchange ("Demerger Scheme") became effective on 27 February 2013. The Demerger Scheme was implemented on 7 March 2013. Full details of the demerger Scheme are set out in the Demerger Scheme Booklet released on 22 January 2013. Talon shares commenced trading on a deferred settlement basis on 27 February 2013 and commenced normal trading on 14 March 2013.

On 25 February 2013 shareholders of Talon's parent entity Texon Petroleum Ltd approved the issue of up to 4,480,000 Talon shares to Wandoo Energy, LLC ("Wandoo"), which is part of the consideration payable to Wandoo for the transfer of certain carried working interests to Texon. The shares are to be issued within three months of the demerger.

In September 2011 the Company was incorporated and issued 1,000 ordinary shares at an issue price of \$10 per share. In December 2012 the Company issued 84,038,316 ordinary shares at an issue price of \$0.30 per share. On 25 February 2013 the Company issued 10,000,000 ordinary shares at an issue price of \$0.50 per share. On 7 March 2013 the Company issued 4,096,117 ordinary shares at an issue price of \$0.5103931 per share. All share issues were to the Company's parent Texon Petroleum Ltd and all issued shares are fully paid. Total issued shares are 98,135,433.

DIRECTORS' REPORT (continued)**5 Operating and financial review (continued)****Financial review**

The Group's consolidated loss after tax for the period from incorporation on 14 September 2011 to 31 December 2012 was \$1,322,434.

The Group's beneficial production for the period was 9.6 mboe from four producing wells. The Group sold its Avoca-Goff#1 well in February 2012 for a gain of \$182,739. Revenue earned during the period was \$750,213. Oil represented 83% of production and 94% of revenue for the Group.

The Group expensed exploration expenditures of \$1,293,795 during the period relating to projects and expenditures that did not meet the Group's criteria for capitalisation under its exploration and evaluation expenditure policy.

At 31 December 2012 the Group cash balance was \$2.5 million. Following share issues subsequent to period end and implementation of the Demerger and Acquisition Schemes in March 2013, Group cash at 8 March 2013 was approximately \$7.8 million.

6 Reserves report

Reserves attributable to Talon's NRI as of 1 August 2012 were as follows:

	Oil and Gas Reserves Nett to Talon's NRI
Proved:	
Oil (mbbl)	323
Natural gas liquids (mbbl)	25
Gas (mmcf)	189
Total proved (mboe) *	379
Probable:	
Oil (mbbl)	285
Natural gas liquids (mbbl)	22
Gas (mmcf)	167
Total probable (mboe) *	335
Possible:	
Oil (mbbl)	522
Natural gas liquids (mbbl)	40
Gas (mmcf)	306
Total possible (mboe) *	613
Totals:	
Oil (mbbl)	1,130
Natural gas liquids (mbbl)	87
Gas (mmcf)	663
Total proved, probable and possible (mboe) *	1,327

* 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.

The reserves relate to the Company's Mosman-Rockingham Olmos project. The Company intends to have its next reserve report prepared mid-year 2013.

The Reserves were assessed by Netherland, Sewell & Associates, Inc. Netherland, Sewell & Associates, Inc. is qualified in accordance with ASX Listing Rule 5.11 and has consented to the form and context of the reserves shown in this report.

DIRECTORS' REPORT (continued)**7 Dividends**

No dividends have been declared, provided for or paid in respect of the financial period ended 31 December 2012.

8 Events subsequent to reporting date

Subsequent to the end of the reporting period:

- Following shareholder approval on 25 February 2013 and approval by the Federal Court of Australia on 27 February 2013, a proposal by Talon's parent entity Texon Petroleum Ltd to demerge by scheme of arrangement and list Talon on the Australian Stock Exchange ("Demerger Scheme") became effective on 27 February 2013. The Demerger Scheme was implemented on 7 March 2013. Full details of the demerger Scheme are set out in the Demerger Scheme Booklet released on 22 January 2013. Talon shares commenced trading on a deferred settlement basis on 27 February 2013 and commenced normal trading on 14 March 2013.
- On 25 February 2013 shareholders of Talon's parent entity Texon Petroleum Ltd approved the issue of up to 4,480,000 Talon shares to Wandoo Energy, LLC ("Wandoo"), which is part of the consideration payable to Wandoo for the transfer of certain carried working interests to Texon Petroleum Ltd. The shares are to be issued within three months of the demerger.
- On 25 February 2013 the Company issued 10,000,000 ordinary shares at an issue price of \$0.50 per share to Texon Petroleum Ltd. On 7 March 2013 the Company issued 4,096,117 ordinary shares at an issue price of \$0.5103931 per share to Texon Petroleum Ltd. The share issues were made in satisfaction of amounts owing by the Company to Texon Petroleum Ltd as a result of cash loaned after 31 December 2012 of \$7,090,630.

9 Likely developments

The Company plans to continue its strategy focusing on low risk oil projects in mature, well serviced areas, where improvements in drilling and fracture stimulation techniques can be applied.

10 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.

11 Directors' Interests

Director	Interest in Securities at the date of this Report	
	Ordinary shares ⁽¹⁾	Options over ordinary shares
Dr J Armstrong	1,025,618 ⁽²⁾	nil
Mr C Foss	31,600	nil
Mr A Douglas	2,780,237 ⁽²⁾	nil
Mr D Mason	3,283,690 ⁽²⁾	nil

⁽¹⁾ Ordinary shares means fully paid ordinary shares in the capital of the Company.

⁽²⁾ Includes interests held indirectly.

DIRECTORS' REPORT (continued)**12 Share Options****12.1 Options granted to Directors and executives of the Company**

During or since the end of the financial period, the Company did not grant any options over unissued ordinary shares in the Company as part of their remuneration. However, in accordance with Mr Foss' employment agreement, entered into after 31 December 2012, he is entitled to a Share Option grant of 3,400,000 unlisted incentive options to be issued in three tranches. The Share Option grant is subject to shareholder approval in May 2013.

12.2 Unissued shares under options

At the date of this report no unissued shares were issued to any Director or officer of the Company under option.

12.3 Shares issued on exercise of options

During or since the end of the financial period no ordinary shares of the Company were issued as a result of the exercise of options.

13 Indemnification and insurance of officers and auditors**13.1 Indemnification**

To the extent permitted by law, the Company has indemnified current Directors of the Company, Dr John Armstrong, Mr David Mason, former Director Mr Bernard Rowley and newly appointed Directors Mr Angus Douglas and Mr Clifford Foss against all liabilities incurred in their capacity as Directors and Chief Executive Officer respectively of the Company and its controlled entities. To the extent permitted by law, the Company will also indemnify the Directors and Chief Executive Officer against all reasonable legal costs incurred by any of them in the defence of an action for a liability incurred by that Director or Chief Executive Officer.

During the year the Company entered into an agreement with its auditors, KPMG indemnifying them against any claims by third parties arising from their report on the annual financial report, except where the liability arises out of conduct involving a lack of good faith.

13.2 Insurance

On 27 February 2013 the Company paid an insurance premium in respect of Directors' and officers' liability for the current Directors and officers including the Chief Executive Officer, Company Secretary and Financial Controller. Under the terms of the policy the premium amount, coverage and other terms of the policy have been agreed to be confidential and not to be disclosed.

14 Non-audit services

During the period 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 the 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 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the 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.

DIRECTORS' REPORT (continued)**14 Non-audit services (continued)**

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 below.

	Consolidated Period 14 Sep 2011 - 31 Dec 2012 \$
Audit services:	
Auditors of the Company, KPMG Australia	
– audit and review of financial reports	40,500
Other services:	
Overseas KPMG firms	
– taxation and other services	107,056
	<u>147,556</u>


15 Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 20 and forms part of the Directors' report for the financial period ended 31 December 2012.

16 Remuneration Report

The Company was not a disclosing entity under the *Corporations Act 2001* as at the reporting date of 31 December 2012 and therefore a remuneration report is not required for this period. Subsequent to being admitted to the official list of the ASX on 27 February 2013 the Company will be formalising its remuneration arrangements with directors and employees, and remuneration details will be provided in the directors' report for the year ended 31 December 2013.

Signed in accordance with a resolution of directors.



John D Armstrong
Chairman
Brisbane
28 March 2013



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

To: the directors of Talon Petroleum Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial period ended 31 December 2012, there have been:

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

KPMG

KPMG

A handwritten signature in blue ink, appearing to read 'S Board'.

Stephen J Board
Partner

Brisbane
28 March 2013

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 14 SEPTEMBER 2011 - 31 DECEMBER 2012**

	Note	Consolidated Period 14 Sep 2011 - 31 Dec 2012 \$
Revenue	3	750,213
Cost of oil and gas sold		<u>(644,228)</u>
Gross profit		105,985
Other income	3	1,852,011
Employee benefits	4	(868,186)
Administrative and other expenses		(1,121,657)
Exploration and evaluation expenditure written-off	14	(1,293,795)
Results from operating activities		<u>(1,325,642)</u>
Finance income	5	3,208
Net finance income / (expense)		<u>3,208</u>
Profit / (loss) before tax		(1,322,434)
Income tax (expense) / benefit	6	-
Profit / (loss) for the period		<u>(1,322,434)</u>
Other comprehensive income		
Foreign exchange translation differences, net of tax	5	146,961
Other comprehensive income for the period, net of tax		<u>146,961</u>
Total comprehensive income attributable to members of the Company		<u>(1,175,473)</u>
		Cents
Basic and diluted earnings per share	8	(57.4)

The notes on pages 25 to 51 are an integral part of these consolidated financial statements.

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012**

	Note	Consolidated 2012 \$
Current assets		
Cash and cash equivalents	9	2,526,130
Trade and other receivables	10	157,248
Prepayments	12	37,658
Total current assets		<u>2,721,036</u>
Non-current assets		
Security deposits	11	100,962
Property, plant and equipment	13	7,019,196
Exploration and evaluation expenditure	14	6,499,769
Total non-current assets		<u>13,619,927</u>
TOTAL ASSETS		<u>16,340,963</u>
Current liabilities		
Trade and other payables	15	687,320
Employee benefits		63,142
Total current liabilities		<u>750,462</u>
Non-current liabilities		
Provisions	16	288,332
Total non-current liabilities		<u>288,332</u>
TOTAL LIABILITIES		<u>1,038,794</u>
NET ASSETS		<u>15,302,169</u>
Equity		
Issued capital	18	25,221,495
Reserves	18	(8,596,892)
Retained earnings / (accumulated losses)		(1,322,434)
TOTAL EQUITY		<u>15,302,169</u>

The notes on pages 25 to 51 are an integral part of these consolidated financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD 14 SEPTEMBER 2011 - 31 DECEMBER 2012**

Consolidated	Note	Share capital \$	Foreign currency translation reserve \$	Restructure reserve \$	Retained earnings / (accumulated losses) \$	Total equity \$
Balance at 14 September 2011 (incorporation)		-	-	-	-	-
Total comprehensive income for the period						
Profit / (loss) for the period		-	-	-	(1,322,434)	(1,322,434)
Other comprehensive income						
Foreign exchange translation differences		-	146,961	-	-	146,961
Total comprehensive income for the period		-	146,961	-	(1,322,434)	(1,175,473)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued		25,221,495	-	-	-	25,221,495
Restructure reserve	24	-	-	(8,743,853)	-	(8,743,853)
Balance at 31 December 2012		25,221,495	146,961	(8,743,853)	(1,322,434)	15,302,169

Amounts are stated net of tax.

The notes on pages 25 to 51 are an integral part of these consolidated financial statements.

STATEMENT OF CASH FLOWS
FOR THE PERIOD 14 SEPTEMBER 2011 - 31 DECEMBER 2012

	Note	Consolidated Period 14 Sep 2011 - 31 Dec 2012 \$
Cash flows used in operating activities		
Cash receipts from customers		695,495
Cash paid to suppliers and employees		(3,877,933)
Cost recovery income received		1,669,272
Interest received		3,208
Net cash used in operating activities	25	<u>(1,509,958)</u>
Cash flows used in investing activities		
Exploration, evaluation and development expenditure		(8,468,303)
Acquisition of property, plant and equipment		(23,653)
Proceeds from sale of oil and gas properties		153,205
Cash acquired on acquisition of controlled entities	24	4,392,713
Payments for security deposits		(48,400)
Net cash used in investing activities		<u>(3,994,438)</u>
Cash flows from financing activities		
Proceeds from borrowings – related parties		13,695,946
Repayment of borrowings – related parties		(5,672,226)
Net cash from financing activities		<u>8,023,720</u>
Net increase/(decrease) in cash and cash equivalents		2,519,324
Effect of exchange rate fluctuations on cash held		6,806
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at 31 December	9	<u>2,526,130</u>

The notes on pages 25 to 51 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Note**

- 1 Significant accounting policies
- 2 Financial risk management
- 3 Revenue and other income
- 4 Expenses
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- 7 Auditors' remuneration
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- 9 Cash and cash equivalents
- 10 Trade and other receivables
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- 21 Contingencies
- 22 Consolidated entities
- 23 Interest in joint ventures
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- 25 Reconciliation of cash flows from operating activities
- 26 Related parties
- 27 Parent entity disclosures
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Talon Petroleum Limited (the “Company”) is a company domiciled in Australia. The address of the Company’s registered office is Level 9, 46 Edward St, Brisbane QLD 4000, Australia. The consolidated financial statements of the Company as at and for the period 14 September 2011 to 31 December 2012 comprise the Company and its subsidiaries (together referred to as the “Group”). The Group is a for-profit entity.

The Company was incorporated on 14 September 2011 as Texon II Limited. On 7 October 2011 the Company changed its name to Texon III Ltd. On 26 November 2012 the Company changed its name to Talon Petroleum Limited.

The financial report is for the period 14 September 2011 to 31 December 2012, and accordingly there is no comparative information.

(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 directors on 28 March 2013.

(b) Basis of preparation

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for AASB9 Financial Instruments (which becomes mandatory for the Group’s 2015 consolidated financial statements), AASB10 Consolidated Financial Statements, AASB11 Joint Arrangements and AASB12 Disclosures of Interests in Other Entities (which becomes mandatory for the Group’s 2013 consolidated financial statements) and could change the classification and measurement of financial assets and disclosure of interests in joint ventures and other entities. The Group does not plan to adopt these standards early and the extent of the impact has not been determined.

The preparation of consolidated financial statements in conformity with Australian Accounting Standards 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(e) exploration and evaluation expenditure, 1(f) property, plant and equipment, 1(i) impairment and 1(m) provisions.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. 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.

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement.

Jointly controlled operations and assets

The interest of the Group in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

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.

(d) Foreign currency

Functional and presentation currency

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

Foreign currency transactions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) 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.

(e) 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. 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 only recognised if the rights 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
- (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.

When an area of interest is abandoned or the directors decide that it is not commercial, any capitalised costs in respect of that area are written off in the financial period the decision is made.

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. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of oil and gas reserves relating to a prospect are demonstrable, exploration and evaluation assets attributable to that prospect are first tested for impairment and then reclassified from intangible assets to oil and gas properties within property, plant and equipment.

(f) 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.

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

Oil and gas properties 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.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of day to day servicing of property, plant and equipment are recognised in the statement of comprehensive income as an expense as incurred.

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. Oil and gas properties are depreciated 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. Leasehold improvements are depreciated over the shorter of the useful life and the lease term. The residual value, the useful life and the depreciation method applied to an asset are reassessed at each balance sheet date.

The estimated useful lives for the current period are as follows:

- Plant, equipment, furniture and fixtures: 3 to 9 years
- Oil and gas properties: units of production

(g) Trade and other receivables

Trade and other receivables are measured at their amortised cost less impairment losses.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment

(i) 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.

(ii) 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 Group performs an impairment test on capitalised exploration and evaluation costs if there is an impairment indicator such as:

- the right to explore has expired during the period or will expire in the near future and is not expected to be renewed
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned
- exploration and evaluation in the specific area has not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area
- sufficient data exists to indicate that the carrying amount of the asset is unlikely to be recovered in full from successful development or by sale even if development in the specific area is likely to proceed.

The recoverable amount of an asset or cash-generating unit 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. For the purpose of impairment testing, assets are grouped together into the smallest 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").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) 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.

(k) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present 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.

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.

Share-based payment transactions

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.

(l) Trade and other payables

Trade and other payables are measured at their amortised cost.

(m) Provisions

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) 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.

Management fee income

Income from management services is recognised in the statement of comprehensive income in line with the management agreements and contracts.

Other income – Disposal of non-current assets

The 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).

(o) Net finance income/expense

Net finance income/expense comprises interest receivable on funds invested and foreign exchange gains and losses. Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

(p) 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.

(q) 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.

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 affect 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.

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

The Group determines operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker.

The Group operates within one business segment (the petroleum exploration and production industry) and one geographical segment (the United States of America).

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Geographical information

The geographical locations of the Group's non-current assets are USA \$13,619,927 and Australia \$nil.

(s) 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.

2. FINANCIAL RISK MANAGEMENT**Overview**

The Group has exposure to the following risks from its use of financial instruments:

- liquidity risk
- market risk
- credit 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. Further quantitative disclosures are included throughout these consolidated financial statements.

The board of directors has overall responsibility for the establishment and oversight of the risk management framework. The board oversees the establishment, implementation and regular review of the Group's risk management system and to this end 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.

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

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.

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, as far as 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.

Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates, interest rates and equity prices will 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, taking into account the Group's size, current stage of development, financial position and the board's approach to risk management.

Currency risk

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

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 banks. The exposure with respect to trade receivables is set out in Note 19.

Capital management

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

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

3. REVENUE AND OTHER INCOME

	Consolidated Period 14 Sep 2011 - 31 Dec 2012 \$
Revenue	
Oil sales	703,632
Gas sales	46,581
	<u>750,213</u>
Other income	
Net gain on sale of oil and gas properties	182,739
Cost recovery income	1,669,272
	<u>1,852,011</u>

The net gain on sale resulted from the sale of 100% of the Group's interest in the Avoca-Goff #1 well.

Operating segment disclosures

All oil and gas revenues are from customers in the USA. Revenues from one customer represent \$703,632 of the Group's total revenues. This amount represents more than 10% of the Group's revenue.

4. EXPENSES

	Consolidated Period 14 Sep 2011 - 31 Dec 2012 \$
Employee benefit expenses	
Wages and salaries	721,851
Other associated employee costs	98,633
Increase in annual leave liability	47,702
	<u>868,186</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. FINANCE INCOME AND EXPENSE

	Consolidated Period 14 Sep 2011 - 31 Dec 2012 \$
Interest income – bank deposits	3,208
Net finance income / (expense)	<u>3,208</u>

Finance income relating to foreign exchange translation differences (net of tax) recognised in comprehensive income is \$146,961.

6. INCOME TAX EXPENSE

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

	Consolidated Period 14 Sep 2011 - 31 Dec 2012 \$
Profit / (loss) before tax	<u>(1,322,434)</u>
Income tax expense/(benefit) using the domestic corporation tax rate of 30%	(396,730)
Increase/(decrease) in income tax expense due to:	
Change in unrecognised temporary differences	444,216
Non-deductible expenditure	1,400
Effect of tax rates in foreign jurisdictions	(49,337)
Tax losses not brought to account	451
Income tax expense/(benefit) on pre-tax net profit/loss	<u>-</u>

Income tax expense consists of current tax expense of \$nil and deferred tax expense of \$nil.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. AUDITORS' REMUNERATION

	Consolidated Period 14 Sep 2011 - 31 Dec 2012 \$
Audit services:	
Auditors of the Company, KPMG Australia	
– audit and review of financial reports	40,500
Other services:	
Overseas KPMG firms	
– taxation and other services	107,056
	<u>147,556</u>

8. EARNINGS PER SHARE

	Consolidate d Period 14 Sep 2011 - 31 Dec 2012 Cents
Basic and diluted earnings per share	<u>(57.4)</u>
	\$
Profit / (loss) used in the calculation of basic and diluted earnings per share	<u>(1,322,434)</u>
Weighted average number of ordinary shares (basic and diluted)	Number
Issued ordinary shares at 14 September 2011	1,000
Effect of shares issued December 2012	<u>2,302,420</u>
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	<u>2,303,420</u>

9. CASH AND CASH EQUIVALENTS

	Consolidated 2012 \$
Bank balances and cash on hand	<u>2,526,130</u>

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 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. TRADE AND OTHER RECEIVABLES

	Consolidated 2012 \$
Current	
Trade and other receivables	<u>157,248</u>

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 19.

11. SECURITY DEPOSITS

	Consolidated 2012 \$
Non-current	
Security deposits	<u>100,962</u>

The amounts consist of security deposits held with entities in the USA and secure obligations in relation to drilling activities in the USA.

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 19.

12. PREPAYMENTS

	Consolidated 2012 \$
Prepayments	<u>37,658</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2012 \$
Oil and gas properties	
Cost	
Balance at beginning of period	-
Acquisitions	3,408,331
Additions	3,755,932
Transferred from exploration and evaluation expenditure	169,115
Foreign exchange translation	(3,785)
Balance at 31 December	<u>7,329,593</u>
Accumulated depreciation and impairment	
Balance at beginning of period	-
Depreciation expense	376,291
Foreign exchange translation	(363)
Balance at 31 December	<u>375,928</u>
Carrying amounts	
At beginning of period	-
At 31 December	<u>6,953,665</u>
Plant, equipment, furniture and fixtures	
Cost	
Balance at beginning of period	-
Acquisitions	111,449
Additions	23,653
Foreign exchange translation	(191)
Balance at 31 December	<u>134,911</u>
Accumulated depreciation	
Balance at beginning of period	-
Depreciation expense	69,508
Foreign exchange translation	(128)
Balance at 31 December	<u>69,380</u>
Carrying amounts	
At beginning of period	-
At 31 December	<u>65,531</u>
Total carrying amounts	
At beginning of period	-
At 31 December	<u>7,019,196</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated 2012 \$
Balance at beginning of period	-
Acquisitions	2,956,483
Additions	5,009,624
Transferred to oil and gas properties	(169,115)
Expenditure written off	(1,293,795)
Foreign exchange translation	(3,428)
Balance at 31 December	<u>6,499,769</u>

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective areas of interest.

15. TRADE AND OTHER PAYABLES

	Consolidated 2012 \$
Trade payables	<u>687,320</u>

The Group's exposure to foreign currency and liquidity risks is disclosed in Note 19.

16. PROVISIONS

Non-current	Consolidated 2012 \$
Restoration provision	
Balance at beginning of period	-
Acquisitions	20,612
Provisions made during the period	267,720
Balance at 31 December	<u>288,332</u>

The restoration provision represents the present value of the estimated cost of obligations to restore operating locations including the removal of facilities, abandonment of wells and restoration of affected areas.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

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

	Consolidated 2012 \$
Exploration and development expenditure	(2,461,775)
Other items	(34,759)
Tax losses	2,496,534
Net tax liabilities	<u>-</u>

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Consolidated 2012 \$
Temporary differences	47,570
Tax losses	1,911,862
	<u>1,959,432</u>

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.

18. CAPITAL AND RESERVES

Share capital

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

	2012 Ordinary shares (number)
On issue at beginning of period	-
Issue of ordinary shares 14 September 2011	1,000
Issue of ordinary shares 21 December 2012	84,038,316
On issue at 31 December – fully paid	<u>84,039,316</u>

Issuance of ordinary shares

In September 2011 the Company was incorporated and issued 1,000 ordinary shares at an issue price of \$10 per share.

In December 2012 the Company issued 84,038,316 ordinary shares at an issue price of \$0.30 per share.

All issued shares are fully paid.

The Company made additional share issues subsequent to period end (refer Note 28).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**18. CAPITAL AND RESERVES (continued)****Ordinary shares**

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued 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.

Foreign currency translation reserve

The foreign currency translation reserve comprises 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.

Restructure reserve

The restructure reserve comprises net liabilities assumed on acquisition of a controlled entity under a common control transaction during the period (refer Note 24).

Dividends

No dividends have been declared, provided for or paid in respect of the period 14 September 2011 to 31 December 2012. In respect to the payment of dividends by the Company in subsequent reporting periods (if any), no franking credits are currently available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business.

Interest rate risk

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was as follows.

	Note	Rates	Consolidated 2012
Cash and cash equivalents	9	Variable	2,526,130
Security deposits (non-current)	11	Variable	<u>52,746</u>

Sensitivity analysis

A 1 percent decrease in prevailing interest rates during the period would have reduced interest income and increased the loss for the period of the Group by \$3,208. This analysis assumes that all other variables remain constant.

A 1 percent increase in prevailing interest rates during the period would have increased interest income and decreased the loss for the period of the Group by \$35,362. This analysis assumes that all other variables remain constant.

Credit risk

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 2012 \$
Cash and cash equivalents	9	2,526,130
Trade and other receivables (current)	10	157,248
Security deposits (non-current)	11	<u>100,962</u>
		<u>2,784,340</u>

The maximum exposure to credit risk for cash and cash equivalents at the reporting date by geographic region was as set out below. The exposure was partially offset by various government guarantees in place in the jurisdictions, and these guarantees are one of the factors considered by the Group in the allocation its cash resources between regions and financial institutions.

	Consolidated Carrying amount 2012 \$
Australia	12,493
USA	<u>2,513,637</u>
	<u>2,526,130</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

At reporting date the Group had a significant concentration of credit risk in trade receivables from oil and gas sales with one customer totalling \$89,500 for the Group. These receivables are all concentrated in the USA.

None of the Group's receivables are past due. The Group believes that no impairment allowance is necessary in respect of receivables based on customer credit history.

Liquidity risk

The Group's financial liabilities consist of trade payables with carrying amounts of \$687,320 and employee benefit provisions with carrying amounts of \$63,142. The contractual cash flows equal the carrying amounts and are due in six months or less.

Currency risk

Exposure to currency risk

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

In AUD

	2012	
	AUD	USD
	\$	\$
Cash and cash equivalents	12,493	2,513,637
Trade and other receivables (current)	-	157,248
Prepayments	-	37,658
Security deposits (non-current)	-	100,962
Trade and other payables	(20,000)	(667,320)
Net exposure	<u>(7,507)</u>	<u>2,142,185</u>

The following significant exchange rates applied during the period.

AUD	Average rate	Reporting date spot rate
	2012	2012
USD	1.036	1.037

Sensitivity analysis

The functional currency of the main operating entities in the Group is US dollars. For the period 14 September 2011 to 31 December 2012 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. As a result, a change in the value of the Australian dollar against the US dollar at 31 December 2012 would not have a material impact on the loss of the Group.

Fair values

The fair values of the Group's financial assets and financial liabilities at 31 December 2012 approximate their carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. CAPITAL AND OTHER COMMITMENTS**Non-cancellable operating lease expense commitments**

Non-cancellable operating lease rentals are payable as follows:

	Consolidated 2012 \$
Less than one year	192,731
Between one and five years	55,159
	<u>247,890</u>

The operating lease rentals relate to office and equipment leases with terms ranging from one to five years. During the period \$172,729 was recognised by the Group as an expense in the statement of comprehensive income in respect of operating leases.

Other commitments

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

	Consolidated 2012 \$
Less than one year	607,522
Between one and five years	2,749,419
More than five years	1,046,748
	<u>4,403,689</u>

21. CONTINGENCIES**Indemnities**

Indemnities have been provided to directors and certain executive officers of the Company in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements and there are no known obligations outstanding at 31 December 2012.

Guarantees

The Group has provided guarantees and deposits totaling \$96,432 in relation to exploration activities in Texas, USA.

Joint ventures

In accordance with normal industry practice the Group has entered into joint ventures with other parties for the purpose of exploring for and developing petroleum interests. If a party to a joint venture defaults and does not contribute its share of joint venture obligations, then the other joint venture 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 venturers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. CONSOLIDATED ENTITIES

	Country of Incorporation	Ownership interest 2012 %
Parent entity		
Talon Petroleum Limited (formerly Texon II Limited and Texon III Ltd)		
Subsidiaries		
Texon I Pty Ltd (formerly Texon III Pty Ltd)	Australia	100
Rubox Pty Ltd	Australia	100
Texoz E&P Holdings I, Inc.	USA	100
Texoz E&P Holdings III, Inc.	USA	100
Texoz E&P I, Inc.	USA	100
Texoz E&P III, Inc.	USA	100

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

23. INTERESTS IN JOINT VENTURES

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

	Working interest 2012 %
Mosman-Rockingham Project	95 to 100
Roundhouse Project	47

24. ACQUISITION OF CONTROLLED ENTITIES

During the period the Company's parent Texon Petroleum Ltd undertook a restructure which involved the insertion of new entities into the Texon Petroleum Ltd group and the formation of the Talon Petroleum Limited Group. All transactions occurred under common control at book carrying values.

The Company was incorporated on 14 September 2011 and issued 1,000 fully paid ordinary shares at an issue price of \$10 per share to Texon Petroleum Ltd.

Texon I Pty Ltd was incorporated on 16 September 2011 and issued 1,000 fully paid ordinary shares at an issue price of \$10 per share to the Company.

Texoz E&P Holdings I, Inc. was incorporated on 4 November 2011 and issued 10,000 fully paid ordinary shares at an issue price of US\$1 per share to Texon I Pty Ltd.

Texoz E&P Holdings III, Inc. was incorporated on 4 November 2011 and issued 10,000 fully paid ordinary shares at an issue price of US\$1 per share to the Company.

Texoz E&P III, Inc. was incorporated on 4 November 2011 and issued 10,000 fully paid ordinary shares at an issue price of US\$1 per share to Texoz Eagle Ford Holdings, Inc., a controlled entity of Texon Petroleum Ltd. On 26 January 2012 Texoz E&P Holdings III, Inc. acquired all issued shares of Texoz E&P III, Inc. from Texoz Eagle Ford Holdings, Inc. for US\$10,000.

Rubox Pty Ltd was incorporated on 29 February 2012 and issued 1,000 fully paid ordinary shares at an issue price of \$10 per share to the Company.

On 7 March 2012 Rubox Pty Ltd acquired all issued shares of Texoz E&P Holdings III, Inc. for US\$10,000.

The above transactions had no material effect on the current period loss for the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. ACQUISITION OF CONTROLLED ENTITIES (continued)

Acquisition of controlled entity Texoz E&P I, Inc.

Texoz E&P I, Inc. was incorporated on 10 July 2006 and was a controlled entity of Texon Petroleum Ltd until 9 November 2011 when Texoz E&P Holdings I, Inc. acquired all issued shares of Texoz E&P I, Inc. for US\$1,000. The transaction occurred under common control at book carrying values.

In the period 9 November 2011 to 31 December 2012 Texoz E&P I, Inc. contributed revenue of \$750,213 and loss of \$962,367 to the Group's results. If the acquisition had occurred on 14 September 2011 management estimates that Group revenue would have been \$792,005 and Group loss for the period would have been \$1,625,116.

Identifiable assets acquired and liabilities assumed

	Note	\$
Cash and cash equivalents		4,392,713
Trade and other receivables		102,530
Prepayments		62,582
Security deposits		52,562
Property, plant and equipment	13	3,519,780
Exploration and evaluation expenditure	14	2,956,483
Trade and other payables		(2,429,051)
Provisions – current		(35,941)
Loans and borrowings – entities under common control		(17,343,935)
Provisions – non-current	16	(20,612)
		<u>(8,742,889)</u>

No amount of the trade receivables acquired was expected to be uncollectible at the acquisition date.

A negative restructure reserve was recognised of \$8,743,853 on acquisition representing the excess of the consideration of \$964 (US\$1,000) over the book carrying values of net liabilities acquired of \$8,742,889.

No material acquisition-related costs were incurred by the Group.

25. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated Period 14 Sep 2011 - 31 Dec 2012 \$
Cash flows from operating activities	
Profit / (loss) for the period	(1,322,434)
Adjustments for non-cash items:	
Exploration and evaluation expenditure written-off	1,293,795
Depreciation – plant and equipment	69,508
Depreciation – oil and gas properties	376,291
Net gain on sale of oil and gas properties	(182,739)
Operating profit/(loss) before changes in working capital and provisions	<u>234,421</u>
Changes in operating assets and liabilities:	
(Increase)/decrease in receivables	(157,248)
(Increase)/decrease in prepayments	(37,658)
(Decrease)/increase in payables	687,320
(Decrease)/increase in employee benefits	63,142
(Decrease)/ increase in working capital and provisions on acquisition of controlled entity	<u>(2,299,935)</u>
Net cash used in operating activities	<u>(1,509,958)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**25. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES (continued)****Non-cash investing and financing activities**

During the period the Group's parent entity Texon Petroleum Ltd subscribed for 84,038,316 ordinary shares in the Company at an issue price of \$0.30 per share. The share issue was made in satisfaction of an amount owing between Texon Petroleum Ltd and the Company and no cash consideration was paid.

There were no other non-cash investing and financing activities during the period.

26. RELATED PARTIES

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

Executive director

Dr J Armstrong (chairman)

Non-executive directors

Mr B Rowley

Mr D Mason (president and chief executive officer until 30 November 2011)

Executives

Mr C Foss (president and chief executive officer from 1 December 2011)

Mr D Olling (company secretary)

Disclosures in this note include amounts in relation to the Texon Petroleum Ltd group.

Parent entity

The Company's parent entity during the period was Texon Petroleum Ltd. Subsequent to period end the Group was demerged from the Texon Petroleum Ltd group (refer Note 28).

Key management personnel compensation

Key management personnel compensation, including amounts paid and share-based payments by the Company's parent Texon Petroleum Ltd in respect of services provided to the Texon Petroleum Ltd group, comprised:

	Consolidated Period 14 Sep 2011 - 31 Dec 2012 \$
Short-term benefits	1,021,866
Post-employment benefits	115,798
Share-based payment	3,887,100
	<u>5,024,764</u>

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.

Other key management personnel transactions

Certain directors, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company or its controlled entities in the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**26. RELATED PARTIES (continued)****Other key management personnel transactions (continued)**

Wandoo Energy LLC (Wandoo), a company controlled by Mr D Mason, provided the Group with services during the period under a prospect generation agreement. Payments to Wandoo under the agreement are US\$50,000 per month for an initial term of eight years commencing 1 May 2006. Amendments to the agreement during the period increased the amount payable in 2013 to \$52,500 per month and in 2014 to \$55,125 per month, and extended the term until April 2019. During the current period US\$779,178 (A\$752,437) was paid by the Group and its related parties to Wandoo for these services.

Under the prospect generation agreement, Wandoo is entitled to an overriding royalty interest (ORRI) and a carried working interest (CWI) and Dr Armstrong is entitled to an ORRI, being a share of petroleum production, in relation to each prospect accepted by the Group. The entitlements vary depending on the net revenue interest obtained by the Group under leases in respect of the prospect. Wandoo's ORRI entitlement varies from nil to 4.5% and CWI entitlement varies from nil to 5%. Dr Armstrong's ORRI entitlement varies from nil to 0.5%. The Group markets the production associated with any ORRI on behalf of Wandoo and Dr Armstrong.

Wandoo provided the Group during the period with geological and geophysical, operations support, data acquisition and reprocessing, and other services. During the current period US\$591,506 (A\$571,122) was paid by the Group and its related parties to Wandoo for these services.

Amendments to the prospect generation agreement were proposed in 2011 and were approved by Texon Petroleum Ltd shareholders at a general meeting of the Company on 31 August 2012.

During the period, in conjunction with the proposed merger of Texon Petroleum Ltd with Sundance Energy Australia Limited, subject to all necessary approvals and to the completion of the proposed demerger of Texon Petroleum Ltd's non Eagle Ford shale assets, Texon Petroleum Ltd contracted to buy from Wandoo Energy, LLC, its working interest in jointly owned Eagle Ford shale assets in McMullen County, Texas, as of 1 October 2012, for the following consideration:

- US\$1,200,000 cash payable by Texon Petroleum Ltd subsidiary Texoz E&P II, Inc. in four equal quarterly instalments, the first payable three months after completion of the demerger; and
- 4,480,000 shares in Talon Petroleum Limited.

The consideration is subject to adjustment downwards (to US\$1,000,000 and 4,000,000 shares in Talon Petroleum) if binding agreements with certain landowners are not entered into within 12 months. The transaction with Wandoo, involving the removal of the carried working interest on Texon Petroleum Ltd's EFS acreage, was a key component of the proposed merger terms with Sundance.

Liabilities arising from the above transactions at 31 December 2012 were \$93,350.

Changes in key management personnel in the period after the reporting date and prior to the date when the financial report is authorised for issue

On 18 March 2013 Mr Rowley retired from the Board, and Mr Douglas was appointed a director of the Company.

Mr Foss was appointed a director of the Company on 26 March 2013.

Apart from the above, there were no changes in key management personnel in the period after the reporting date and prior to the date when the financial report is authorised for issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. RELATED PARTIES (continued)**Non-key management personnel disclosures****Identity of related parties**

The Group has a related party relationship with its parent Texon Petroleum Ltd, its subsidiaries (see Note 22) and with its key management personnel (see disclosures for key management personnel on preceding pages).

Joint ventures

From time to time, to support the activities of joint ventures, venturers increase their investments in joint ventures.

Other related parties

	Transactions value Period 14 Sep 2011
	-
	31 Dec 2012
	\$
Entities under common control - Cost recovery income	<u>1,669,272</u>

During the period the Texon Petroleum Ltd group undertook a corporate restructure. On 9 November 2011 the Group acquired a subsidiary Texoz E&P I, Inc. from the Texon Petroleum Ltd group under a common control transaction at book carrying values.

On 21 December 2012 the Company's parent Texon Petroleum Ltd subscribed for 84,038,316 ordinary shares in the Company at an issue price of \$0.30 per share in satisfaction of a loan outstanding between entities under common control of \$25,211,495.

Amounts receivable arising from the above transactions at 31 December 2012 were \$46,560.

Key management persons related parties

For details of these transactions refer to key management personnel related disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial period ending 31 December 2012 the parent entity of the Group was Talon Petroleum Limited.

	2012
	\$
Result of the parent entity	
Loss for the period	(21,152)
Other comprehensive income for the period	-
	<u>(21,152)</u>
Financial position of the parent entity at period end	
Current assets	848
Total assets	25,234,343
Current liabilities	20,000
Total liabilities	34,000
Total equity of the parent entity comprising of:	
Share capital	25,221,495
Accumulated losses	(21,152)
Total Equity	<u>25,200,343</u>

28. SUBSEQUENT EVENTS

Subsequent to the end of the reporting period:

- Following shareholder approval on 25 February 2013 and approval by the Federal Court of Australia on 27 February 2013, a proposal by Talon's parent entity Texon Petroleum Ltd to demerge by scheme of arrangement and list Talon on the Australian Stock Exchange ("Demerger Scheme") became effective on 27 February 2013. The Demerger Scheme was implemented on 7 March 2013. Full details of the demerger Scheme are set out in the Demerger Scheme Booklet released on 22 January 2013. Talon shares commenced trading on a deferred settlement basis on 27 February 2013 and commenced normal trading on 14 March 2013.
- On 25 February 2013 shareholders of Talon's parent entity Texon Petroleum Ltd approved the issue of up to 4,480,000 Talon shares to Wandoo Energy, LLC ("Wandoo"), which is part of the consideration payable to Wandoo for the transfer of certain carried working interests to Texon Petroleum Ltd. The shares are to be issued within three months of the demerger.
- On 25 February 2013 the Company issued 10,000,000 ordinary shares at an issue price of \$0.50 per share to Texon Petroleum Ltd. On 7 March 2013 the Company issued 4,096,117 ordinary shares at an issue price of \$0.5103931 per share to Texon Petroleum Ltd. The share issues were made in satisfaction of amounts owing by the Company to Texon Petroleum Ltd as a result of cash loaned after 31 December 2012 of \$7,090,630.

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 21 to 51 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2012 and of its performance for the financial period ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;
- (b) the consolidated financial statements 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.

Signed in accordance with a resolution of the directors.



John D Armstrong
Chairman
Brisbane
28 March 2013



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

Report on the financial report

We have audited the accompanying financial report of Talon Petroleum Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2012, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period ended on that date, notes 1 to 28 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the period's end or from time to time during the financial period.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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



Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2012 and of its performance for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

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

KPMG

A handwritten signature in blue ink that reads 'Stephen J Board'.

Stephen J Board
Partner

Brisbane
28 March 2013

ADDITIONAL INFORMATION

Additional Information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report. The information was prepared based on share registry information processed up to 25 March 2013.

TWENTY LARGEST SHAREHOLDERS

	Number of ordinary shares held	Percentage of capital held
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	5,163,976	5.26
BUTTONWOOD NOMINEES PTY LTD	5,107,820	5.20
MR DAVID J M MASON	3,275,200	3.34
JP MORGAN NOMINEES AUSTRALIA (CASH INCOME ACCOUNT)	3,063,984	3.12
HOTLAKE PTY LTD	2,000,000	2.04
BERNE NO 132 NOMINEES PTY LTD (52293 ACCOUNT)	1,882,490	1.92
RESOURCE & LAND MANAGEMENT SERVICES (SKERMAN SUPER FUND ACCOUNT)	1,748,243	1.78
JP MORGAN NOMINEES AUSTRALIA LIMITED	1,535,648	1.56
MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT>	1,228,319	1.25
GASCORP AUSTRALIA PTY LTD	1,188,148	1.21
DOUGLAS FINANCIAL CONSULTANTS PTY LTD	1,120,430	1.14
HANCROFT PTY LTD	1,048,316	1.07
MR ALEXANDER JOHN MARSHALL	878,000	0.89
DR JOHN D ARMSTRONG	840,809	0.86
UBS NOMINEES PTY LTD	831,673	0.85
MR ANGUS DOUGLAS	800,000	0.82
A N DOUGLAS MANAGEMENT PTY LTD (A N DOUGLAS PRIVATE INVESTMENT ACCOUNT)	776,430	0.79
MR DAVID FREDERICK OAKLEY	699,230	0.71
YARRAN PARK PTY LTD	655,808	0.68
SHANRAY PTY LTD	661,200	0.67
TOTAL	34,515, 724	35.17

UNQUOTED SECURITIES

There are no unquoted securities.

DISTRIBUTION OF EQUITY SECURITIES

Analysis of security by size of holding

Category	Number of ordinary shares	Number of holders
1-1,000	127,725	273
1,001-5,000	2,489,714	834
5,001-10,000	4,244,608	571
10,001-100,000	32,538,474	1,132
100,001-and over	58,734,912	133
	98,135,433	2,943

Number of holders of unmarketable parcels

Ordinary Shares

140

RESTRICTED SECURITIES

There are no restricted securities.

SUBSTANTIAL SHAREHOLDERS

Substantial Shareholders	Number of Shares
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	5,163,976
BUTTONWOOD NOMINEES PTY LTD	5,107,820

VOTING RIGHTS**Ordinary shares**

Refer to Note 18 in the financial statements.

ON-MARKET BUY BACK

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

