TALON
PETROLEUM LIMITED

INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED

30 JUNE 2013

ABN 88 153 229 086

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DIRECTORS' REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2013

The directors present their report together with the consolidated financial report for the six months ended 30 June 2013 and the review report thereon.

Directors

The directors of the Company at any time during or since the end of the period are:

Name	***Period of directorship***
Executive	
Mr Clifford S. Foss Jr (Chief Executive Officer, President and Managing Director)	Appointed as Director 26 March 2013 and as Chief Executive Officer and President 7 March 2013
Non-executive	
Mr Jeffrey Forbes (Chairman)	Appointed as Director 4 April 2013 and as Chairman 30 May 2013
Dr John Armstrong (previous Chairman)	Appointed 14 September 2011 and retired 30 May 2013
Mr Bruce Cowley	Appointed 30 May 2013
Mr Angus Douglas	Appointed 18 March 2013
Mr David Mason	Appointed 14 September 2011
Mr Bernard Rowley	Appointed 14 September 2011 and retired 18 March 2013

Production

Production for the six month period was:

	Six months ended 30 Jun 2013	**Six months ended 30 Jun 2012**
Gross:		
Gas (mmcf)	0.0	0.0
Oil (mbbl)	4332.0	1472.0
Total (mboe)	4332.0	1472.0
Nett (Talon share):[(1)]		
Gas (mmcf)	0.0	0.0
Oil (mbbl)	3086.6	1048.8
Total (mboe)	3086.6	1048.8

(1) Talon's beneficial NRI share.

Net production (boe) increased by 294% compared with the half year to 30 June 2012. The major factor in the increase was the drilling and completion of the Wheeler #1 well on the Olmos sand in June 2012.

At 30 June 2013 the Company had one producing Olmos well and a pending workover to stimulate and reactivate an Olmos completion on the Hoskins Unit #1 well that commenced the week of 26 August 2013. The lone Wilcox producing well, the Hoskins #2, went off production in June 2013. The daily oil production rate had declined to 3.51 bopd for the prior 90 day period and the water rate had increased to 24 bwpd. The cost of water haul-off makes the well uneconomical to return to production without major expense to attempt to eliminate the zone contributing the water.

DIRECTORS' REPORT (continued)

Financial

The Company recorded a loss of $6,461,751 (2012: loss $546,540) for the period, with no income tax expenses recorded for H1/2013 or H1/2012. The Company's loss for H1/2013 increased primarily due to $3,634,157 in write-offs of exploration expenses previously capitalised and $2,228,708 in impairment expense recognised for the Hoskins #2 well.

Revenue for the six month period was $303,119 (2012: $103,510), an increase of $199,609 or 192.8%. Whilst production from the Hoskins #2 well decreased 22% from H1/2012 compared to H1/2013, revenues increased as a result of the production from the Wheeler #1 well which came online in July 2012. The proportion of revenue derived from oil sales increased from 91% in H1/2012 to 100% in H1/2013.

The West Texas Intermediate crude oil price averaged about US$94/bbl in H1/2013 as compared to US$98/bbl in H1/2012.

Cash at 30 June 2013 was $4.99 million (31 December 2012: $2.53 million). Net tangible assets per share at 30 June 2013 was $0.17/share (31 December 2012: $0.18/share).

Operations

East Texas Roundhouse Prospect, Navarro County, Texas

During the second quarter of 2013, the Company joined with USA-based O'Brien Energy Company ("O'Benco") originally for 25% WI in the proof of concept well (Bonner 1H) and the surrounding approximately 600 acres at a combined cost of US $1.65 million to the Company. O'Benco is the operator with a WI of 75%. The Company has also acquired approximately 3,511 additional acres in close proximity to the well at a cost of US$742,000. Pursuant to the PGA with Wandoo, as at 30 June 2013 the Company has approximately 24% WI in the Bonner 1H well and the surrounding 600 acres, and the Company's total Roundhouse lease position is approximately 7,180 net acres.

The Bonner 1H well was drilled to the total measured depth of 15,260 feet (9,472 feet TVD) on 3 July 2013.

Since the end of the half-year, completion commenced with fracture stimulation on 21 July 2013. Four (4) of the eleven (11) planned stages were completed when the operator, O'Benco, advised that on 25 July 2013, the 7 inch and 9.625 inch casings parted in the well. The fracture stimulation has been placed on hold and the operator has mobilized a workover rig in an effort to re-establish the mechanical integrity of the failed casing and, if successful, to continue the completion operations. O'Benco has successfully completed the necessary steps to control the flow that occurred at the time of the casing failure. An important milestone to demonstrate to the regulatory authorities with the Texas Railroad Commission that the 9.626" surface casing adequately protects the fresh water resources surrounding the well has also been successfully accomplished. Operations to re-establish complete mechanical integrity of the wellbore and continue with the frac are underway.

South Texas Mosman-Rockingham Olmos, McMullen County, Texas

The Talon Group has leases covering approximately 3,823 net WI acres in the Olmos formation located in McMullen County in Southern Texas.

Production was discontinued on the Hoskins #2 (Wilcox) well on 15 June 2013, when the down hole pump malfunctioned. An economic assessment of returning the well to production revealed it would be uneconomic to do so at this time. Rather, the surface and down hole production equipment was transferred to the Hoskins Unit #1 in order to return the well to production as an Olmos completion. Work commenced the week of 15 July 2013 to restore the Hoskins Unit #1 to production. The attempt to re-enter the well was suspended when it was found that the well would flow, even though an attempt was made to kill the well. The workover effort was suspended and flow to existing production tanks was conducted for a four week period with the flowing rate declining to 2 bopd. A workover rig was moved to the well on 26 August to complete the process and return this well to production. As of 11 September 2013 the rods and pump have been run and the well is pumping off load water used during the work over.

DIRECTORS' REPORT (continued)

As to future horizontal drilling, the Company has received an offer from a third party to participate in the proof of concept horizontal Olmos well on the 199-acre Quintanilla lease. The proof of concept well is planned for the 1st quarter 2014, pending the sell down. The Company will have approximately 16.67% WI in the initial well and will retain approximately 66% WI in the remaining 3,490 net acres for further monetization. The potential 15 well horizontal program on 120 acre spacing would replace a 29 well vertical development scheme based on 40 acre spacing.

East Texas (Rodessa) Prospects

Talon has a 97% WI in foothold leases of 2,829 net acres in the Catfish Creek, East Banks and Redfish prospect areas and is targeting up to 20,000 acres. The play encompasses scalable multi-well resource oil potential in vertical and horizontal multi-frac wells.

Reserves as at 1 August 2013

As at 1 August 2013, the Proved + Probable + Possible (3P) reserves attributable to Talon's NRI were 2.09 mmboe.

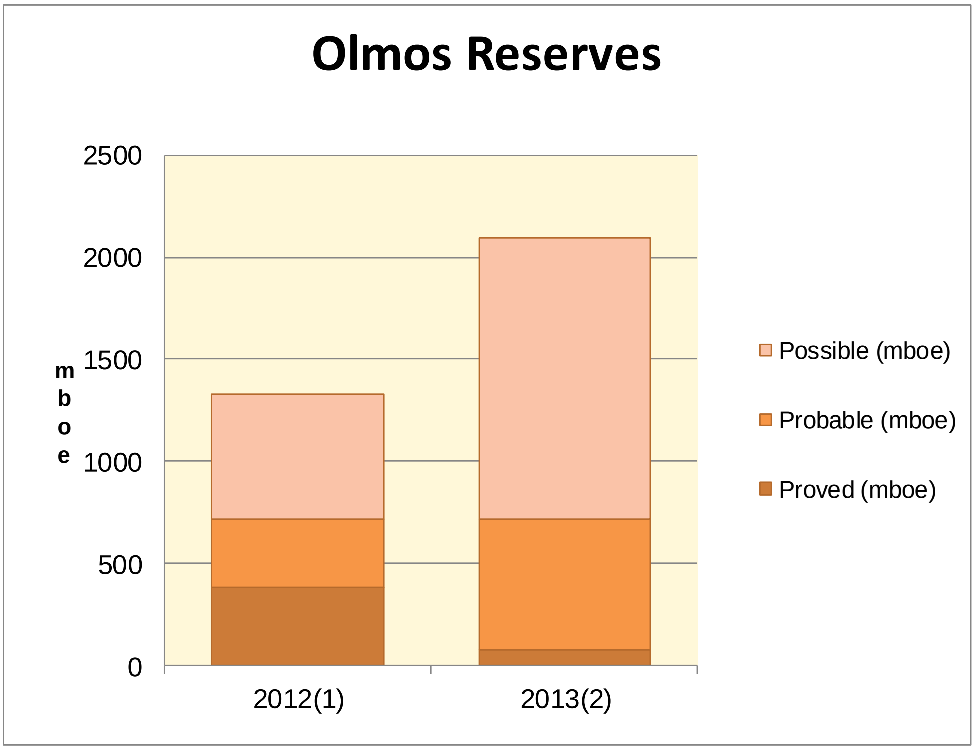
This is a 57% increase on the 1.33 mmboe 3P reserves at mid-year 2012 for the Olmos formation. The total mid-year 2012 3P reserves of 12.58 mmboe included reserves attributable to the Eagle Ford formation, which were not a part of the Demerger Scheme that became effective on 27 February 2013.

The mid-year 2013 Reserves have been assessed by Netherland, Sewell & Associates, Inc.

	Oil & Gas Reserves				
			Net		
	TALON		TEXON		
	Midyear 2013		Midyear 2012 Reserves		
	Olmos Reserves		(TALON) Olmos Reserves	Eagle Ford Reserves	Total
Proved:					
Oil (mbbl)	**79**		**323**	1,314	1,637
Natural gas liquids	**0**		**25**	159	184
Gas (mmcf)	**0**		**189**	1,288	1,478
Total proved (mboe)	**79**		**379**	1,688	2,067
Probable:					
Oil (mbbl)	**503**		**285**	2,724	3,009
Natural gas liquids	**60**		**22**	328	350
Gas (mmcf)	**456**		**167**	2,577	2,744
Total probable	**639**		**335**	3,482	3,816
Possible:					
Oil (mbbl)	**500**		**522**	4,734	5,255
Natural gas liquids	**386**		**40**	591	631
Gas (mmcf)	**2,933**		**306**	4,552	4,858
Total possible	**1,375**		**613**	6,083	6,696
Totals:					
Oil (mbbl)	**1,083**		**1,129**	8,772	9,902
Natural gas liquids	**446**		**87**	1,077	1,165
Gas (mmcf)	**3,389**		**663**	8,417	9,080
Total proved, probable and possible (mboe) **	**2,093**		**1,327**	11,252	12,580

* 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.

DIRECTORS' REPORT (continued)



(1) Mid-year report is as of 1 August 2012
(2) Mid-year report is as of 1 August 2013.

Reserves as at 1 August 2013 (continued)

Netherland, Sewell & Associates, Inc. and Delilah B Hainey are qualified in accordance with ASX Listing Rule 5.11. Netherland, Sewell & Associates, Inc. has consented to the form and context of the reserves shown in this report.

Corporate

Following shareholder approval on 25 February 2013 and approval by the Federal Court of Australia on 27 February 2013, a proposal by the Company's previous parent entity Texon to demerge by scheme of arrangement and list the Company on the Australian Securities 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.

Further, in association with the Demerger Scheme changes in key management personnel were effected. On 18 March 2013 Mr Bernard Rowley retired from the Board, and Mr Angus Douglas was appointed a director of the Company. Mr Foss was appointed a director of the Company on 26 March 2013 and a Chief Executive Officer and President on 7 March 2013.

On 25 February 2013 the Company issued 10,000,000 ordinary shares at an issue price of $0.50 per share to Texon. On 7 March 2013 the Company issued 4,096,117 ordinary shares at an issue price of $0.5103931 per share to Texon. The share issues were made in satisfaction of amounts owing by the Company to Texon as a result of cash loaned after 31 December 2012 of $7,090,630.

The Company's first AGM was held on 30 May 2013 and all resolutions were passed.

In May 2013 the Board completed the process of renewal whereby Dr John Armstrong has retired as a Director and Chairman as from the end of the Company's AGM on 30 May 2013 and the Board has appointed Mr Jeffrey Forbes (who joined the Board on 4 April 2013) as Chairman and Mr Bruce Cowley as a

DIRECTORS' REPORT (continued)

Non-Executive Director following Dr Armstrong's retirement coming into effect. The Company also appointed a new Company Secretary, Ms Anastasia Maynes in April 2013.

In May 2013 the Company issued 4,000,000 ordinary shares to Wandoo as part consideration for the acquisition by Texoz E&P II, Inc. ("Texoz"), a subsidiary of the Company's previous parent entity Texon, of the WI from Wandoo in its Eagle Ford Shale assets in Texas USA under an agreement between Texoz and Wandoo as part of the Demerger Scheme and Acquisition Scheme approved by shareholders 25 February 2013 and implemented 7 and 8 March 2013, respectively. Total issued shares as at 30 June 2013 were 102,135,433.

In June 2013 the Company issued 3,400,000 unlisted options to the CEO, Mr Clifford Foss and 1,200,000 unlisted options to Wandoo. The options are exercisable at $0.0675 cents each under certain conditions and were issued in accordance with shareholder approval granted at the 30 May 2013 AGM. As at 30 June 2013, 4,600,000 unlisted options remained outstanding.

In August 2013 the Company issued 650,000 unlisted options to staff. The options are exercisable at $0.0675 cents each under certain conditions and the option terms are substantially the same as the options issued to Mr Foss in June 2013.

Dividends

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

Lead Auditor's independence declaration

The Lead Auditor's independence declaration is set out on page 8 and forms part of the Directors' Report for the six months ended 30 June 2013.

Signed in accordance with a resolution of the directors.

J Forbes

Jeffrey Forbes
Chairman
Brisbane
12 September 2013

Glossary

AGM:	Annual General Meeting
bbl:	barrel
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
bwpd:	barrels of water per day
Company or Talon:	Talon Petroleum Limited
Demerger Scheme:	the Company's demerger from its previous parent entity Texon by scheme of arrangement and subsequent listing on the Australian Securities Exchange
ft:	feet
Group:	the Company and its subsidiaries
m:	metres
mbbl:	thousand barrels
mboe:	thousand barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6mcf to 1 barrel of oil equivalent)
mcf:	thousand cubic feet
mmboe:	million barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6mcf to 1 barrel of oil equivalent)
mmcf:	million cubic feet of gas
NRI:	Net Revenue Interest
O'Benco	O'Brien Energy Company
PGA:	Prospect Generation Agreement
Texon:	Texon Petroleum Limited
TVD:	True Vertical Depth
Wandoo:	Wandoo Energy LLC
WI:	Working Interest

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

To: the directors of Talon Petroleum Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the interim period ended 30 June 2013 there have been:

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

KPMG

KPMG

Stephen Board
Partner

Brisbane
12 September 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Note	Six months ended 30 Jun 2013 $	Six months ended 30 Jun 2012 $
Revenue – oil		303,119	103,510
Cost of oil	5	(222,395)	(103,598)
Gross profit		80,724	(88)
Other income	5	282,065	172,595
Employee benefits	5	(320,770)	(234,953)
Administrative and other expenses	5	(647,960)	(334,835)
Exploration and evaluation expenditure written off	5	(3,634,157)	(149,352)
Impairment	5	(2,228,708)	-
Results from operating activities		(6,468,806)	(546,633)
Finance income	5	7,055	93
Net finance income / (expense)		7,055	93
Loss before income tax		(6,461,751)	(546,540)
Income tax expense		-	-
Profit / (loss) for the period		(6,461,751)	(546,540)
Other comprehensive income			
Foreign exchange translation differences, net of tax		1,427,188	(4,804)
Other comprehensive income / (loss) for the period, net of tax		1,427,188	(4,804)
Total comprehensive income / (loss) attributable to members of the Company		(5,034,563)	(551,344)
		Cents	Cents
Basic earnings/(loss) per share		(5.3)	(55,134.4)
Diluted earnings/(loss) per share		(5.3)	(55,134.4)

The condensed notes on pages 13 to 19 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Note	30 Jun 2013	31 Dec 2012
		$	$
Current assets			
Cash and cash equivalents		4,994,022	2,526,130
Restricted cash	6	1,475,044	-
Trade and other receivables		173,425	157,248
Prepayments		34,008	37,658
Total current assets		6,676,499	2,721,036
Non-current assets			
Security deposits		110,883	100,962
Property, plant and equipment	7	5,123,105	7,019,196
Exploration and evaluation expenditure	8	5,965,472	6,499,769
Total non-current assets		11,199,460	13,619,927
TOTAL ASSETS		17,875,959	16,340,963
Current liabilities			
Trade and other payables		79,094	687,320
Employee benefits		86,379	63,142
Total current liabilities		165,473	750,462
Non-current liabilities			
Provisions		316,662	288,332
Deferred tax liabilities		-	-
Total non-current liabilities		316,662	288,332
TOTAL LIABILITIES		482,135	1,038,794
NET ASSETS		17,393,824	15,302,169
Equity			
Issued capital	9	32,312,125	25,221,495
Reserves		(7,134,116)	(8,596,892)
Accumulated losses		(7,784,185)	(1,322,434)
TOTAL EQUITY		17,393,824	15,302,169

The condensed notes on pages 13 to 19 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2013

Six months ended 30 June 2012	**Share capital $**	**Share options reserve**	**Restructure reserve $**	**Foreign currency translation reserve $**	**Accumulated losses $**	**Total equity $**
Balance at 1 January 2012	977	-	-	-	(9,025,158)	(9,024,181)
Total comprehensive income for the period						
Profit / (loss) for the period	-	-	-	-	(546,540)	(546,540)
Other comprehensive income						
Foreign exchange translation differences	-	-	-	(4,804)	-	(4,804)
Total comprehensive income for the period	-	-	-	(4,804)	(546,540)	(551,344)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued	-	-	-	-	-	-
Restructure reserve	-	-	-	-	-	-
Balance at 30 June 2012	977	-	-	(4,804)	(9,571,698)	(9,575,525)
Six months ended 30 June 2013						
Balance at 1 January 2013	25,221,495	-	(8,743,853)	146,961	(1,322,434)	15,302,169
Total comprehensive income for the period						
Profit / (loss) for the period	-	-	-	-	(6,461,751)	(6,461,751)
Other comprehensive income						
Foreign exchange translation differences	-	-	-	1,427,188	-	1,427,188
Total comprehensive income for the period	-	-	-	1,427,188	(6,461,751)	(5,034,563)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued	7,090,630		-	-	-	7,090,630
Share payment reserve	-	35,588				35,588
Balance at 30 June 2013	32,312,125	35,588	(8,743,853)	1,574,149	(7,784,185)	17,393,824

Amounts are stated net of tax.

The condensed notes on pages 13 to 19 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Six months ended 30 Jun 2013 $	Six months ended 30 Jun 2012 $
Cash flows from operating activities		
Cash receipts from customers	374,326	229,757
Cash paid to suppliers and employees	(1,599,208)	(908,459)
Interest received	7,055	93
Income taxes paid	-	-
Net cash from operating activities	(1,217,827)	(678,609)
Cash flows from investing activities		
Restricted cash invested	(1,475,044)	-
Exploration, evaluation and development expenditure	(2,205,208)	(1,353,427)
Acquisition of property, plant and equipment	-	(3,751,688)
Transfers to oil and gas properties	-	150,665
Proceeds from sale of oil and gas properties	102,169	132,777
Net cash from investing activities	(3,578,083)	(4,821,673)
Cash flows from financing activities		
Proceeds from loan	7,090,630	7,164,281
Net cash from financing activities	7,090,630	7,164,281
Net increase/(decrease) in cash and cash equivalents	2,294,720	1,663,999
Cash and cash equivalents at 1 January	2,526,130	223,432
Effect of exchange rate fluctuations on cash and cash equivalents	173,172	(4,804)
Cash and cash equivalents at 30 June	4,994,022	1,882,627

The condensed notes on pages 13 to 19 are an integral part of these consolidated interim financial statements.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Note

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. REPORTING ENTITY

Talon Petroleum Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 30 June 2013 comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated annual financial report of the Group as at and for the period ended 31 December 2012 is available upon request from the Company's registered office at Level 16, 344 Queen Street, Brisbane QLD 4000 or at http://www.talonpetroleum.com.au/.

2. STATEMENT OF COMPLIANCE

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

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated financial report of the Group as at and for the period ended 31 December 2012.

This consolidated interim financial report was approved by the Board of Directors on 12 September 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the period ended 31 December 2012.

Estimates

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

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the period ended 31 December 2012.

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 $11,194,517 and Australia $4,943 (31 December 2012: USA $10,511,863 and Australia $nil).

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIALSTATEMENTS (continued)

4. DEMERGER AND RESTRUCTURE

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 Securities 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.

Further, in association with the Demerger Scheme changes in key management personnel were effected. On 18 March 2013 Mr Bernard Rowley retired from the Board, and Mr Angus Douglas was appointed a director of the Company. Mr Foss was appointed a director of the Company on 26 March 2013 and a Chief Executive Officer and President on 7 March 2013.

In May 2013 the Board completed the process of renewal whereby Dr John Armstrong retired as a Director and Chairman as from the end of the Company's AGM on 30 May 2013 and the Board has appointed Mr Jeffrey Forbes (who joined the Board on 4 April 2013) as Chairman and Mr Bruce Cowley as a Non-Executive Director following Dr Armstrong's retirement coming into effect. The Company also appointed a new Company Secretary, Ms Anastasia Maynes in April 2013.

5. INCOME AND EXPENSES

	Six months ended 30 Jun 13 $	Six months ended 30 Jun 12 $
Cost of oil sold	(222,395)	(103,598)
Other income	282,065	172,595
Employee benefits	(320,770)	(234,953)
Administrative and other expenses	(647,960)	(334,835)
Exploration expensed	(3,634,157)	(149,352)
Impairments	(2,228,708)	-
Finance income	7,055	93

Cost of oil sold includes depletion of oil and gas properties of $116,454 (2012: $22,213).

Other income includes gain resulting from the disposal of the Group's producing oil and gas properties during the period of $102,169 (2012: $172,595).

Employee benefits include shared-based payment expense of $5,588 (2012: $nil) in relation to employee options issued. Administrative and other expenses include shared-based payment expense of $nil (2012: $nil) in relation to contractor options. Refer to Note 10.

Exploration expensed includes write-downs of previously capitalised expenditures related to exploration and evaluation activities for the period of $3,634,157 (2012: $149,352). Refer to Note 8.

At period end management determined that the Hoskins #2 well should be impaired due to a current lack of economic viability.

Impairments to Oil and Gas properties, net of depreciation of $2,228,708 (2012: $nil).

Finance income consists of interest income of $7,055 (2012: $93).

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

6. RESTRICTED CASH

Restricted cash consists of funds on deposit for the escrow account pursuant to the terms of the Scheme Implementation Agreement dated 13 November 2012 between Sundance Energy Australia Limited and Talon's previous parent entity Texon Petroleum Limited. As at 30 June 2013 the amount of restricted cash on deposit was $1,475,044 (2012: $nil) including interest earned of $4,095. The funds were due to be released to Talon by 16 September 2013, however, subsequent to 30 June 2013 a legal claim has been made with respect of these funds as set out in Note 14.

7. PROPERTY, PLANT AND EQUIPMENT

	Six Months ended 30 Jun 13	Twelve months ended 31 Dec 12
Oil and gas properties	**$**	**$**
Cost		
Balance at 1 January	7,329,593	-
Additions/Disposals	(35,393)	3,408,331
Acquisitions	-	3,755,932
Transferred from exploration and evaluation expenditure	-	169,115
Restoration expenses	-	-
Impairments	(2,228,708)	-
Foreign exchange translation	552,363	(3,785)
Balance at end of period	5,617,855	7,329,593
Accumulated depreciation and impairment		
Balance at 1 January	375,928	-
Depletion expense (refer Note 4)	116,475	376,291
Foreign exchange translation	50,288	(363)
Balance at end of period	542,691	375,928
Carrying amounts		
At 1 January	6,953,665	-
At end of period	5,075,164	6,953,665
Plant, equipment, furniture and fixtures		
Cost		
Balance at 1 January	134,911	-
Acquisitions	-	111,449
Additions	-	23,653
Foreign exchange translation	13,407	(191)
Balance at end of period	148,318	134,911
Accumulated depreciation		
Balance at 1 January	69,380	-
Depreciation expense	28,791	69,508
Foreign exchange translation	2,206	(128)
Balance at end of period	100,377	69,380
Carrying amounts		
At 1 January	65,531	-
At end of period	47,941	65,531
Total carrying amounts		
At 1 January	7,019,196	-
At end of period	5,123,105	7,019,196

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

8. EXPLORATION AND EVALUATION EXPENDITURE

	Six months ended 30 Jun 13 $	Twelve months ended 31 Dec 12 $
Balance at 1 January	6,499,769	2,956,483
Additions	2,542,819	5,009,624
Transferred to oil and gas properties	-	(169,115)
Expenditure written-off	(3,634,157)	(1,293,795)
Foreign exchange translation	537,041	(3,428)
Balance at end of period	5,965,472	6,499,769

During the period the Company recognised $3,634,157 in expenses written off for its prospects under exploration and evaluation.

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

9. SHARE CAPITAL

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

	Six months ended 30 Jun 13 Ordinary shares (number)	Twelve months ended 31 Dec 12 Ordinary shares (number)
On issue at 1 January	84,039,316	1,000
Issue of ordinary shares 21 December 2012	-	84,038,316
Issue of ordinary shares 25 February 2013	10,000,000	-
Issue of ordinary shares 7 March 2013	4,096,117	-
Issue of ordinary shares 6 May 2013	4,000,000	-
On issue at end of period – fully paid	102,135,433	84,039,316

Issuance of ordinary shares

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 previous parent entity Texon. The share issues were made in satisfaction of amounts owing by the Company to Texon as a result of cash loaned after 31 December 2012 of $7,090,630.

On 6 May 2013 the Company issued 4,000,000 ordinary shares to Wandoo as part consideration for the acquisition by Texoz E&P II, Inc.("Texoz"), a subsidiary of the Company's previous parent entity Texon, of the WI from Wandoo in its Eagle Ford Shale assets in Texas USA under an agreement between Texoz and Wandoo as part of the Demerger Scheme and Acquisition Scheme approved by shareholders 25 February 2013 and implemented 7 and 8 March 2013, respectively. As the shares did not directly benefit Talon other than to facilitate the transaction between Texoz and Wandoo, the effect was a re-distribution of ownership with no consequence as to valuation included in the financial statements of Talon.

During the twelve month period ending 31 December 2012, the Company issued 84,038,316 ordinary shares valued at $0.30/share.

All issued shares are fully paid.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

10. SHARE OPTIONS

Movements in the number of share options during the period were as follows:

	Six months ended 30 Jun 13 Options (number)	Twelve months ended 31 Dec 12 Options (number)
Outstanding at 1 January	-	-
Granted during the period	4,600,000[1]	-
Exercised during the period	-	-
Expired during the period	-	-
Outstanding at end of period	4,600,000	-
Exercisable at end of period	-	-

[1] 4,600,000 options were approved by the Board in March and April 2013 but were subject to shareholder approval at a general meeting. The options were approved by shareholders at the AGM on 30 May 2013.

In June the 2013 Company issued 3,400,000 unlisted options to the CEO, Mr Clifford Foss, and 1,200,000 unlisted options to Wandoo. The options are exercisable at $0.0675 cents each under certain conditions and were issued in accordance with shareholder approval granted at the 30 May 2013 AGM.

The options outstanding at 30 June 2013 consist of 1,200,000 options with an exercise price of $0.0675 which expire in March 2019 (unless vest earlier), 1,100,000 options with an exercise price of $0.0675 which expire in March 2020 (unless vest earlier), 1,100,000 options with an exercise price of $0.0675 which expire in March 2021 (unless vest earlier), and 1,200,000 with an exercise price of $0.0675 which expire in June 2018. Further information with respect to these options is set out in the Explanatory Memorandum accompanying the Notice of Annual General Meeting issued on 30 April 2013.

There were no Talon options issued or outstanding during the twelve month period ended 31 December 2012. Officers and Directors of Talon returned all Texon options previously awarded for cancellation in accordance with the Demerger Scheme.

11. CAPITAL AND OTHER COMMITMENTS

Information with respect to continuing commitments is set out in the 31 December 2012 annual financial report. There have been no significant changes during the six months ended 30 June 2013.

12. CONTINGENCIES

Information with respect to contingencies is set out in the 31 December 2012 annual financial report. There have been no significant changes to contingencies during the six months ended 30 June 2013 apart from the matter set out below.

In January 2012 an accident at the Peeler #4 well site in McMullen County, Texas resulted in the death of an employee of an independent third party contractor engaged by the contract operator of record. Subsequent to year end 2012, the family of the deceased have filed legal proceedings in a Texas court claiming damages against the Group, the contract operator and a number of other parties connected with the accident which are unrelated to the Group. The Group denies any liability in connection with the accident. It is not currently practicable to estimate the potential financial effect on the Group of the claim, if any.

13. RELATED PARTIES

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 31 December 2012 financial report. Significant changes during the period are set out below.

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

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

issues were to the Company's previous parent Texon. The share issues were made in satisfaction of amounts owing by the Company to Texon as a result of cash loaned after 31 December 2012 of $7,090,630.

On 6 May 2013 the Company issued 4,000,000 ordinary shares to Wandoo as part consideration for the acquisition by Texoz E&P II, Inc. ("Texoz"), a subsidiary of the Company's previous parent entity Texon, of the WI from Wandoo in its Eagle Ford Shale assets in Texas USA under an agreement between Texoz and Wandoo as part of the Demerger Scheme and Acquisition Scheme approved by shareholders 25 February 2013 and implemented 7 and 8 March 2013, respectively.

In June 2013 the Company issued 3,400,000 unlisted options to the CEO, Mr. Clifford Foss, and 1,200,000 unlisted options to Wandoo (a related party of the director Mr. David Mason). The options were issued in accordance with shareholder approval granted at the 30 May 2013 AGM.

During the interim period ended 30 June 2013 related party transactions included payments of $72,618 to Minter Ellison for legal services performed. Mr Bruce Cowley, a Non-executive Director of Talon, is a Partner at Minter Ellison in Brisbane.

14. SUBSEQUENT EVENTS

1) On 7 September 2013 a notice was received from Sundance Energy Australia Limited asserting claims under the Scheme Implementation Agreement ("SIA") dated 13 November 2012 between Sundance Energy Australia Limited and Talon's previous parent entity Texon Petroleum Limited and the Demerger Deed between Talon and Texon Petroleum Limited dated 14 January 2013. As set out in note 6, as at 30 June 2013 Talon had $1,475,044 held in an escrow account pursuant to the terms of the SIA which is available to be used to meet successful claims under the SIA.

   The directors intend to dispute the claims by Sundance Energy Australia Limited, the details of which are currently being assessed by the directors and their legal advisors. Given that the notice was received in recent days, it is impractical to determine the maximum contingent liability at this time. However, directors note that these claims may impact the timing and amount of funds released from the escrow account.

2) During fraccing operations on 25 July 2013 the operator of the Roundhouse Prospect proof of concept well (Bonner 1H) reported that the 7 inch and 9.625 inch casings parted in the well. The operator, O'Brien Energy Company reported that 2 contractors were injured in the incident. The injured personnel were treated for minor acid burns and returned to work the same day. The operator has notified local, state and federal agencies in addition to insurers regarding the incident. The directors do not expect any significant liabilities to arise from this matter.

3) In August the Company issued 650,000 unlisted options to staff. The options are exercisable at $0.0675 cents each under certain conditions and the option terms are substantially the same as the options issued to Mr. Foss in June 2013.

DIRECTORS' DECLARATION

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

(a) the financial statements and notes set out on pages 9 to 19 are in accordance with the *Corporations Act 2001* including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the six month period ended on that date; and

(ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

Jeffrey Forbes
Chairman
Brisbane
12 September 2013

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

Report on the financial report

We have reviewed the accompanying interim financial report of Talon Petroleum Limited, which comprises the consolidated statement of financial position as at 30 June 2013, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the interim period's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2013 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Talon Petroleum Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Stephen Board
Partner

Brisbane
12 September 2013