



# 2021 ANNUAL REPORT

POISED FOR NEAR-TERM  
**EXPONENTIAL GROWTH**, AND  
FOCUSED ON DELIVERING LONG  
TERM **SHAREHOLDER VALUE**

**[talonenergy.com.au](https://talonenergy.com.au)**

ABN 88 153 229 086

# CORPORATE DIRECTORY

## DIRECTORS

Douglas Jendry  
Non-Executive Chairman

Colby Hauser  
Managing Director/CEO

Matthew Wornier  
Executive Director

David Casey  
Non-Executive Director

## COMPANY SECRETARY

David Lim  
Lauren Nelson

## PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

1202 Hay Street  
West Perth WA 6005  
Telephone: +61 8 6319 1900

## SOLICITORS

Steinepreis Paganin

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16 Milligan Street  
Perth WA 6000

## AUDITORS

BDO Audit (WA) Pty Ltd

Level 9, Mia Yellagonga Tower 2,  
5 Spring Street,  
Perth WA 6000  
Telephone: +61 8 6382 4600

## SHARE REGISTRY

Computershare Investor Services Pty Ltd

Level 11, 172 St Georges Terrace  
Perth WA 6000  
Australian Telephone: 1300 850 505  
International Telephone: +61 3 9415 4000  
[www.computershare.com.au](http://www.computershare.com.au)

## STOCK EXCHANGE LISTING


Australian Securities Exchange  
ASX Code: TPD

## WEBSITE

[www.talonenergy.com.au](http://www.talonenergy.com.au)

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TALON ENERGY LTD WAS  
FORMERLY KNOWN AS  
TALON PETROLEUM LTD



# CHAIRMAN'S LETTER

Dear Shareholder,

**The coming year is set to be a pivotal one for Talon as it continues to build on the significant achievements made to date at the Walyering and Gurvantes XXXV projects during 2021.**

Throughout last year Talon continued to build on the momentum generated in 2020, which culminated in the successful drilling of the Company's maiden Perth Basin well at the Walyering Gas Project located within EP447 in the Onshore Perth Basin, in which Talon holds a 45% participating interest. The Walyering-5 appraisal well intersected 4 gas charged sands, exceeding pre-drilling expectations, and at the time of writing, Talon's Partner and Operator in the EP447 Joint Venture, Strike Energy Ltd, is preparing to commence flow testing of Walyering-5 to determine the commerciality of the intersected reservoirs, and in a broader sense, the Walyering gas field. Upon positive flow testing, the Joint Venture will look to drill and test the Walyering-6 appraisal well and upgrade the Walyering Resource, as well as advance studies to determine how best to move forward with commercialising the Walyering Gas Project. The project is located in close proximity to the Parmelia Gas Pipeline linking the Onshore Perth Basin to WA's growing industrial gas market.

In addition to the drilling success at Walyering, significant achievements were made during the year at the Gurvantes XXXV Coal Seam Gas Project in Mongolia in which Talon can earn a 33% interest. Key approvals were granted to the Project's Operator, Telmen Resource LLC, including the signing of a Production Sharing Agreement with the Mongolian Government, the grant of a 10-year Exploration Licence and the approval of the Project's Environmental Assessment Study in early 2022, which have paved the way for exploration field work to begin at Gurvantes XXXV. The initial program which consists of 4 fully tested core holes scheduled in the maiden drilling program commenced mid-March with the spudding of the first drill hole, with results from this hole expected in June 2022. The results of this program will be used to assess the coal seam gas potential of the coal resources in the project area. There are several commercialisation options within the emerging Mongolian gas market and the exploration license is adjacent to the one of the world's largest and fastest growing gas markets, in China.

Throughout 2021 Talon continued to pursue its farm out strategy for its UK North Sea licenses. Unfortunately, due to the impact of COVID-19 and the associated downturn in exploration activity in the





region it proved difficult to get sufficient traction to warrant continued participation in the area. With the Company's increasing focus on its Perth Basin portfolio and the Gervantes XXXV Project, the Company made the decision to exit its portfolio of UK North Sea licenses.

As a result of the board's decision to withdraw from its UK portfolio, Stephen Jenkins, a highly experienced UK based oil and gas executive retired from the board of Talon in February 2022. On behalf of the board of directors I would like to thank Stephen for his valuable contribution to the Company during his tenure.

In March this year the Company was pleased to appoint Colby Hauser as Talon's new Managing Director and CEO. Colby brings a wealth of experience to the board, having extensive experience in the energy sector and in particular the Perth Basin, and we are delighted to welcome him at this exciting time in the Company's development. Colby replaces David Casey who has transitioned to a non-executive director role with the Company.

I would like to thank shareholders for their continued support over the past year, with 2022 set to be a period of high activity and progress across Talon's portfolio with much to look forward to over the course of the year.

**Douglas Jendry**  
**Non-Executive Chairman**

# REVIEW OF OPERATIONS

## 2021 HIGHLIGHTS

**\$5M**

**CAPITAL RAISING  
COMPLETED IN  
APRIL 2021**

**33%**

**FARM-IN AGREEMENT  
EXECUTED FOR AN  
INTEREST IN THE  
GURVANTES XXXV  
PROJECT, MONGOLIA**

**45%**

**FARM-IN TO PERTH  
BASIN WALYERING  
GAS PROJECT  
COMPLETED**

### Highlights during the year 2021 included:

- Intersection of 4 gas charged sands in the Walyering-5 appraisal well at the Walyering gas field located in the Perth Basin.
- Binding agreement executed with Macallum Group Ltd giving Talon the option to acquire 100% of the tenure over the Condor Prospect located in the Perth Basin.
- Maiden Prospective Resource estimate calculated for the Condor prospect.
- Farm-In Agreement executed with Telmen Resources LLC to earn a 33% in the Gurvantes XXXV Coal Seam Gas Project located in Mongolia.
- Execution of Production Sharing Agreement by Telmen Resource LLC and grant of 10-year Exploration License over the Gurvantes XXXV Project.
- Completion of \$5m capital raising in April 2021 plus an additional \$4.4m received on conversion of options.



Ensign Rig 970 drilling at the Walyering-5 appraisal well

## REVIEW OF OPERATIONS (Continued)

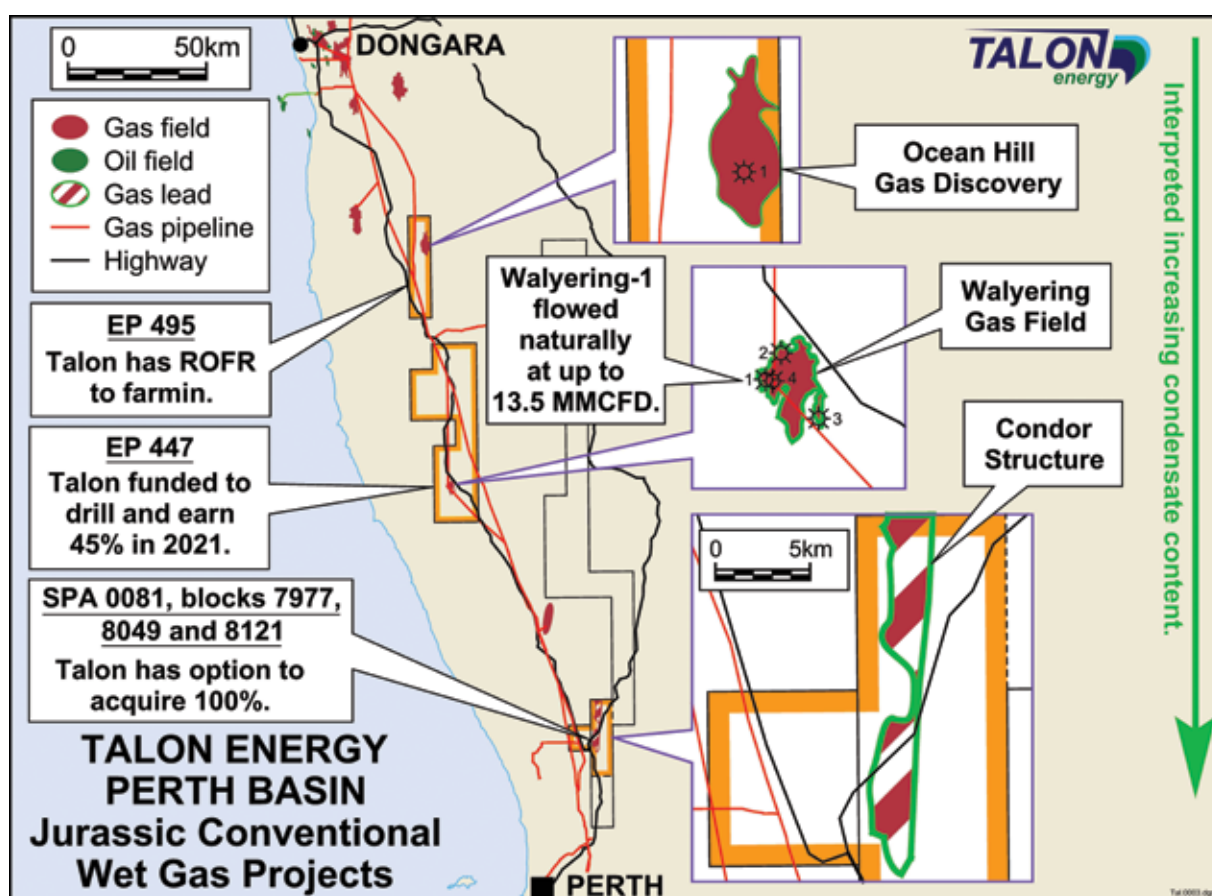
### PERTH BASIN

#### EP447 – WALYERING CONVENTIONAL GAS PROJECT

During 2020, Talon executed Farm-In and Joint Operating Agreements with Strike Energy Limited in relation to the acquisition of a 45% interest in EP447. EP447, located in the Perth Basin of Western Australia contains the Walyering conventional gas discovery. In 1971 the Walyering-1 well intersected gas in the Cattamarra Coal Measures, which are a fine to coarse grained sandstone with dark carbonaceous siltstone and claystone interbeds, with thick gas charged coal seams. Walyering-1 well test flowed at 13.5mmscf/d and measured circa 1% CO<sub>2</sub> from the A-Sand. This Jurassic wet gas Perth Basin play has also seen previous commercial gas production from the nearby Gin-Gin and Red Gully fields and the presence of condensates has the potential to further enhance the economics of Walyering field.

Walyering is ideally located with proximity to existing gas transmission pipelines (Parmelia Gas Pipeline and Dampier to Bunbury Natural Gas Pipeline) which connect the Perth Basin to all of Western Australia's gas customers, facilitating a path to market for commercial gas volumes. With historic levels of CO<sub>2</sub> less than 1%, minimal processing equipment has been required to bring this gas to the market.

On 24 July 2020, Talon and our Joint Venture Partner announced a Prospective Resource estimate for Walyering (refer Table 1 below).



Talon's interests in the Perth Basin



## REVIEW OF OPERATIONS (Continued)

Table 1: EP447 – Walyering – Perth Basin, Western Australia

WALYERING A & B SANDS CONVENTIONAL WET GAS UNRISKED PROSPECTIVE RESOURCE <sup>(1)</sup> TALON'S NET (@ 45%)						
PERMIT	LOW (P90)		BEST (P50)		HIGH (P10)	
	CONDENSATE (MMbbl)	GAS (Bcf)	CONDENSATE (MMbbl)	GAS (Bcf)	CONDENSATE (MMbbl)	GAS (Bcf)
EP447	0.55	21.6	0.981	38.7	1.62	63.9

(1) Prospective Resource estimation as at 9 June 2020 which was calculated using the probabilistic estimation method

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

With significant 3-D seismic coverage over the field, in December 2021 the EP447 Joint Venture commenced drilling of the Walyering-5 appraisal well, targeting the highly prospective A and B Sands located in the Cattamarra Coal Measures. On 6 December 2021, Talon announced that the Walyering-5 well had intercepted a high-quality, low CO<sub>2</sub> conventional gas accumulation, consisting of 4 gas charged reservoirs, with a total gross thickness of 116m and total net pay of 51m, with peak porosities of 21.5% and an average porosity of 15.4%. Pressure data for the well measured approximately 4,386 psia (per square inch absolute) with permeabilities of 274 mD (millidarcy) with CO<sub>2</sub> levels of <1%. The Walyering-5 well drilled to ~3,400m MD (measured depth) and exceeded pre-drill expectations, by intersecting a higher quality reservoir and 2 additional net gas pay zones (in the C1 and C2 sands) which are expected to yield additional recoverable volumes.



Flow Testing D Sands at Walyering-5

Flow testing activities at Walyering-5 commenced in March 2022, to determine commercial flow rates from each of the four zones in the reservoir. Gas was brought to surface in preliminary well testing activities, with perforation of the lower D Sands, over a 12.6m interval. Preliminary testing of the D Sands has yielded a flowing well head pressure of 2,100 psia, with gas flowing through a 24/64" choke manifold constraining gas flows to approximately 7 mmscf/d. Gas samples taken during testing confirmed that the D Sands reservoir contains low CO<sub>2</sub> and no H<sub>2</sub>S, supporting results from the samples taken during the December drilling campaign.

The Joint Venture will drill a further well at the Walyering Project, Walyering-6, which would operate in tandem with Walyering-5 should the field move into production.



## REVIEW OF OPERATIONS (Continued)

### EP495 – OCEAN HILL CONVENTIONAL GAS DISCOVERY (First Right of Refusal)

As part of Talon's farm-in to the Walyering Project, Talon also secured a First Right of Refusal to farm into EP495 located in the Perth Basin, which contains the Ocean Hill gas discovery. Ocean Hill is a Jurassic wet gas play currently 100% owned by Strike Energy Limited and has a gross 2C Contingent Resource of 360Bcf (Gas) and 1.18mmbbls (Condensate).

Additional information about the above Contingent Resource can be found in Talon's ASX release dated 24 July 2020 titled 'Perth Basin Resource Numbers'. Talon confirms that it is not aware of any new information or data that materially affects the information included in that announcement and that all the material assumptions and technical parameters underpinning the estimates contained in that announcement have not materially changed and continue to apply.

### EP494 – CONDOR STRUCTURE

In January 2021, Talon announced that it had entered into a non-binding option agreement with Macallum Group Limited (**Macallum Group**) to acquire a 100% interest in the area covering the Condor Structure located on EP494 and SPA-0081 (**Condor Structure**) in the onshore Perth Basin.

Talon entered into the option agreement with Macallum Group following a strategic review undertaken to identify opportunities in the Perth Basin to appraise and explore for conventional, wet gas reservoirs close to gas transport infrastructure. With the successful appraisal drilling program at Walyering, the option over the Condor Structure provides Talon with significant exposure to what could be the Perth Basin's largest untested Jurassic wet gas structure. The structure of the Macallum transaction allows the Company to undertake low-cost initial exploration work to better define the hydrocarbon potential at Condor.

The Agreement with Macallum was formalised and became binding on both companies in March 2021. In conjunction with formalising the terms for Talon to acquire the Condor Prospect, on 17 March 2021 Talon announced a Maiden Prospective Resource for the high relief Condor Structure. The assessment of such a significant Prospective Resource at Condor represented another important step forward for Talon in building its Perth Basin asset portfolio (refer Table 2 below).

**Table 2: EP494 – Condor Prospect – Perth Basin, Western Australia**

CONDOR STRUCTURE UNRISKED PROSPECTIVE RESOURCES TALON – 100% <sup>(1)</sup>						
PERMIT	LOW (P90)		BEST (P50)		HIGH (P10)	
	CONDENSATE (MMbbl)	GAS (Bcf)	CONDENSATE (MMbbl)	GAS (Bcf)	CONDENSATE (MMbbl)	GAS (Bcf)
EP494	9.5	202	20.2	408	39	710

(1) Talon has executed an Agreement with Macallum Group Limited to acquire 100% of the Condor Prospect

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

In June 2021 Talon completed an initial Airborne Electromagnetic Transient Pulse survey (**AEM-PTP**) over the Condor Structure as part its obligations under the Condor Acquisition Agreement. The AEM-PTP is a low cost, passive geophysical method to measure the natural variations in the earth's magnetic field used to identify potential accumulations of economic hydrocarbons.

Talon is currently working with Macallum Group to satisfy a number of conditions precedent to allow the acquisition for the Condor Structure to proceed to Completion.

## REVIEW OF OPERATIONS (Continued)

# GLOBAL PROJECTS

### GURVANTES COAL SEAM GAS PROJECT - MONGOLIA

In February 2021, Talon executed a binding Letter Agreement with Telmen Resource LLC (**Telmen**) pursuant to which Talon can earn a 33% participating interest in the Gurvantes XXXV Coal Seam Gas Project located in Southern Mongolia.

At time of executing the Letter Agreement, Telmen held a Prospecting Contract over the area of the proposed PSA and had undertaken an initial prospecting work program to better understand its prospectivity.

Within the project area lie multiple very thick (>50m), high quality, bituminous rank, coal seams outcropping at surface and extending along an east-west strike for approximately 150km.

Previous Coal Seam Gas (**CSG**) tests over the area have characterised the coal as containing high gas content qualities of ~10m<sup>3</sup>/tonne, with very high (>95%) Methane levels.



The Gurvantes XXXV PSA was executed by the Mineral Resources and Petroleum Authority of Mongolia (**MRPAM**) and Telmen in July 2021 paving the way for the grant of a 10-year exploration licence over the project area in January 2022.

The Gurvantes XXXV PSA covers 8,400km<sup>2</sup> in what is considered one of the most prospective basins for Coal Seam Gas globally. Gurvantes XXXV is situated less than 20km from the Chinese-Mongolian border and close to the extensive Northern China gas transmission and distribution network. Notably, it is the closest of Mongolia's CSG projects to China's West-East Gas Pipeline, which delivers gas to the eastern markets of China. Likewise, it is proximate to several large-scale mining operations with high energy requirements. As such, Gurvantes XXXV is ideally placed for future gas sales to satisfy both local Mongolian, as well as Chinese, energy requirements.

On 18 August 2021, Talon announced the Gurvantes XXXV Project's Maiden Prospective Resource which was calculated independently by global petroleum consultants, Netherland Sewell and Associates Inc (**NSAI**), one of the most respected names in independent Resource reporting (refer tables 3 and 4 below).

**Table 3: Gross (100%) Prospective Gas Resources (TCF)**

REGION	UNRISKED PROSPECTIVE RESOURCE (TCF)			RISKED PROSPECTIVE RESOURCE (TCF)		
	1U (LOW)	2U (BEST)	3U (HIGH)	1U (LOW)	2U (BEST)	3U (HIGH)
Prospect Area	1.30	2.02	3.38	1.17	1.82	3.04
Lead Area	6.89	17.94	38.24	1.95	4.14	8.21
<b>Total</b>	<b>8.19</b>	<b>19.96</b>	<b>41.62</b>	<b>3.12</b>	<b>5.96</b>	<b>11.25</b>

Gas volumes expressed in the table above are in trillion cubic feet (TCF) at standard temperature and pressure bases.

## REVIEW OF OPERATIONS (Continued)

**Table 4: Talon's net (33%) Prospective Gas Resources (TCF)\***

REGION	UNRISKED PROSPECTIVE RESOURCE (TCF)			RISKED PROSPECTIVE RESOURCE (TCF)		
	1U (LOW)	2U (BEST)	3U (HIGH)	1U (LOW)	2U (BEST)	3U (HIGH)
Prospect Area	0.43	<b>0.66</b>	1.12	0.39	<b>0.60</b>	1.00
Lead Area	2.28	<b>5.92</b>	12.62	0.64	<b>1.37</b>	2.71
<b>TOTAL</b>	<b>2.71</b>	<b>6.58</b>	<b>13.74</b>	<b>1.03</b>	<b>1.97</b>	<b>3.71</b>

Gas volumes expressed in the table above are in trillion cubic feet (TCF) at standard temperature and pressure bases.

\*Talon's interest is subject to completion of Farm-in and transfer of a 33% interest in Gurvantes XXXV PSA.

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

Under the terms of its farm-in agreement with Telmen, Talon has committed to fund an initial work program estimated at US\$1.5 million, which commenced in the latter part of the financial year, with spudding of the first of four coreholes taking place in mid-March 2022. This initial program will be used to acquire important data to confirm gas content and understand permeability, which is one of the last remaining technical parameters in the appraisal of the project. After the initial work program, Talon has the option to continue to fund stage 2 exploration, which it will farm into a 33% holding upon further spend of \$US 3.1 million.



Proposed corehole locations for the initial work program at Gurvantes XXXV.

The initial drilling program, if successful, will be the first phase of work required to upgrade the current independently certified 5.96 TCF (2U risked) Gross Prospective Resource to a lower risk Contingent Resource. This upgrade of the Gurvantes XXXV resource at will be a major milestone in the potential establishment of a world class CSG project that is immediately adjacent to pipeline infrastructure to transport gas to one of the world's largest and fastest growing energy markets, in China.

### UK NORTH SEA

During the year Talon continued to execute its UK North Sea farm-out strategy of marketing its portfolio of UK North Sea licenses to interested operators in order to build a substantial non-operating position. However, the impact of the COVID-19 pandemic and associated downturn in exploration activity in the region made the successful execution of the Company's strategy difficult, and on the back of the success at the Walyering Project in the Perth Basin, and momentum at the Gurvantes XXXV Project in Mongolia a decision was made to exit the UK portfolio as part of a strategic review.

As part of the exit strategy, subsequent to year end, the Company commenced the relinquishment process on all but one of its UK license holdings, while still pursuing negotiations for the farm-out or trade sale of Licence P2727, which contains the White Bear Prospect.

# REVIEW OF OPERATIONS (Continued)

## CORPORATE UPDATE

During April 2021, Talon completed a placement to sophisticated investors amounting to \$5,000,000 via the issue of 1,250,000,000 ordinary shares at \$0.04 per share.

In May 2021 the Company held its Annual General Meeting at which all Resolutions put to the meeting were carried by >99% of all eligible votes cast by shareholders. All Resolutions put to the meeting were voted on by poll.

Included in the resolutions carried at the 2021 AGM, was a Resolution to approve the change of the Company's name from Talon Petroleum Limited to Talon Energy Ltd. The name change was made on the basis that the new name more accurately reflected the future strategy of the Company to become a more integrated energy company in order to meet the expectations of stakeholders.

In June 2021, Talon appointed new Joint Company Secretary Mr David Lim, to assist the Company meet its compliance obligations, with the incumbent Company Secretary, Ms Lauren Nelson, taking maternity leave.

Effective from 1 January 2022, Mr David Casey, Talon's Managing Director and CEO, transitioned from his executive position to a non-executive director role with Company, where he continues to provide technical and strategic advice to the Company.

Subsequent to the year end, in March 2022, Talon appointed Mr Colby Hauser as the Company's Managing Director and CEO. Prior to commencing with Talon, Mr Hauser was General Manager- Commercial at Strike Energy Limited, the Operator of the EP447 (Walyering) Joint Venture, in which Talon holds a 45% participating interest. Mr Hauser brings to Talon a broad range of experience in senior corporate, commercial, and business development roles in the Energy Sector.

## LICENCE SUMMARY

PROJECT	LOCATION	BLOCK	STATUS	BENEFICIAL INTEREST
Walyering	Perth Basin	EP447	Granted	45% <sup>1</sup>
Vantage	North Sea	12/26a & 12/27a	Granted	100% <sup>2</sup>
Chisum	North Sea	19/5a	Granted	100% <sup>2</sup>
Bluestring/White Bear	North Sea	20/2a	Granted	100% <sup>2</sup>
Carnaby	North Sea	28/8	Granted	100% <sup>2</sup>
SUBJECT TO EARN-IN CONDITIONS				
Condor	Perth Basin	Blocks 7977, 8049 and 8121(within EP494)/SPA-0081	Granted	0% <sup>3</sup>
Ocean Hill	Perth Basin	EP495	Granted	0% <sup>4</sup>
Gurvantes XXXV	South Gobi Basin, Mongolia	No. 735	Granted	0% <sup>5</sup>

<sup>1</sup> During the year Talon met the requirements of the farm-in and currently holds a 45% interest in the license.

<sup>2</sup> Talon is in the process of exiting its UK North Sea portfolio of licences.

<sup>3</sup> In January 2021 Talon entered into a non-binding agreement for the option to acquire 100% of blocks 7977, 8049 and 8121 located within EP494, and SPA-0081 from Macallum Group Limited. This transaction is subject to a number of Conditions Precedent, some of which had not been satisfied at the end of the 2021 financial year.

<sup>4</sup> As part of the Walyering farm-in agreement executed with Strike Energy Limited, Talon also has a first right of refusal over EP495.

<sup>5</sup> Talon executed a binding agreement dated 30 January 2021 with Telmen to earn a 33% interest in the Gurvantes XXXV Production Sharing Agreement. At the end of the reporting period no interest, other than the contractual earn-in right, had been acquired by Talon.



## REVIEW OF OPERATIONS (Continued)

### Reserves and Resources

At the end of the reporting period Talon had no reportable Reserves or Contingent Resources.

Talon confirms that in respect of the Prospective Resource Estimates appearing in this Report, it is not aware of any new information or data that materially affects the information included in the relevant market announcement and that all the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

### SUMMARY

*"Talon has had a very busy and exciting year building out our portfolio of projects. It is an extremely exciting time for Talon's shareholders with the commencement of the flow testing program at Walyering-5 and confirmation that preparation for the drilling of the Walyering-6 well is underway. Should the ongoing flow testing continue to meet expectations, we expect that Talon will be able to book its Maiden Gas Reserve, a milestone event for Talon and it's shareholders. With potential near term cashflow associated with Walyering production coupled with ongoing drilling activities in Mongolia at Gurvantes XXXV, the company is poised for exponential growth and will remain focused on delivering long term shareholder value."*



**Colby Hauser**

Managing Director and CEO

# DIRECTORS' REPORT

The directors of the Company present their report together with the consolidated financial statements of Talon Energy Limited ('the Company' or 'Talon') and of the Group, being the Company and the entities it controlled at the end of, or during, the year ended 31 December 2021 and the Auditor's Report thereon.

## DIRECTORS

All directors have been in office for the entire period unless otherwise stated. The names of the Directors in office at any time during or since the end of the report period are:

DIRECTOR	TITLE	APPOINTED	RESIGNED
Douglas Jendry	Non-Executive Chairman	13 October 2020	-
Colby Hauser	Managing Director/CEO	8 March 2022	-
David Casey <sup>1</sup>	Managing Director/CEO	19 July 2020	- <sup>1</sup>
	Non-Executive Director	1 Jan 2022	-
Matthew Worner	Executive Director	4 December 2017	-
Stephen Jenkins	Non-Executive Director	7 June 2019	23 February 2022

<sup>1</sup> Transitioned to a Non-Executive Director from 1 January 2022.

## COMPANY SECRETARY

Lauren Nelson

David Lim (appointed 1 June 2021)

## PRINCIPAL ACTIVITIES

The principal activities of the Group are exploration and evaluation of oil and gas projects. The portfolio of assets focussed on during the year were the Perth Basin assets and the South Gobi Basin, Mongolian assets.

## FINANCIAL REVIEW

The Group's consolidated loss after tax for the year ended 31 December 2021 was \$4,279,597 (2020: \$1,012,934) with a net cash position at 31 December 2021 of \$6,714,830 (2020: \$4,657,871) and net operating cash outflows of \$1,998,757 (2020: \$826,331).

## DIVIDENDS

No dividend has been declared or paid by the Company since the start of the financial period and the Directors do not at present recommend a dividend.

## AGM

The Company's AGM was held on 28 May 2021 and all resolutions were passed and decided by way of poll.

## OUTLOOK

The 2021 year was period of strong growth for Talon, with its initial entry into Mongolia with the farm-in of the Gurvantes XXXV Project, along with the continued progress on the Perth basin projects. 2022 will continue with the exploration and development of its current licenses via its joint venture partners, along with pursuing its own interests in the Perth Basin.

# DIRECTORS' REPORT (Continued)

## CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Talon Energy Ltd support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Securities Exchange Corporate Governance Council and considers that the Company is compliant with many of those guidelines which are of importance to the commercial operation of the Company. During the financial year, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company.

Details of Talon's current corporate governance practices is set out in Talon's Corporate Governance Plan which can be viewed on the Talon website at [www.talonenergy.com.au](http://www.talonenergy.com.au).

## EVENTS SUBSEQUENT TO REPORTING DATE

On 1 January 2022, David Casey transitioned from the role of Managing Director & CEO to Non-Executive Director. As part of his transition to the role of Non-Executive Director, the Company and Mr Casey have agreed to restructure his equity-based incentive remuneration. Accordingly, Mr Casey will retain an amount of 160,000,000 Performance Rights (reduced from 327,678,954) and will, subject to the receipt of the required shareholder approval, be issued 40,000,000 options to acquire Talon shares on the terms below. Mr Casey will also receive Non-Executive Director fees in an amount of \$40,000 per annum.

Summary of proposed Option Terms:

- Number of options: 40,000,000
- Exercise Price: \$0.01 each
- Expiry date: 2 years from the date of issue.

On 11 February 2022, Talon advised that as a result of an internal review of its operations, a decision was made to undertake an exit of its portfolio of UK North Sea exploration assets in order to focus on its more advanced stage projects.

The company has commenced the relinquishment process for the licenses currently in its portfolio, however, remains in discussions regarding the possible divestment to a third-party licence P2727, which contains the White Bear project. It is anticipated the process of exiting its UK portfolio will be complete in the coming few months.

On 23 February 2022, Steve Jenkins resigned from his position as Non-Executive Director.

On 8 March 2022 the Company appointed Mr Colby Hauser as Managing Director and CEO of the Company. Mr Hauser brings to Talon a broad range of experience in senior corporate, commercial, and business development roles in the Energy Sector, and most recently held the position of General Manager, Commercial at Strike Energy Limited (Strike). Strike is the operator of EP447, which contains the highly prospective Walyering gas project.

In his roles in the Energy Sector, Mr Hauser has developed a specialised skill set including corporate strategy, gas sales and marketing, joint venture representation, project development, as well as investor and government/stakeholder relations. Mr Hauser has significant long-term experience in the Perth Basin and is well known in the Perth energy community where he was formerly the President and is now a Life Member of the Energy Club of WA (formerly Petroleum Club of WA).

As part of the appointment, Mr Hauser will receive a salary of \$300,000 plus superannuation and 175,000,000 Performance Rights with various vesting conditions attached.

## DIRECTORS' REPORT (Continued)

### LIKELY DEVELOPMENTS

Other than as referred to in this report, further information as to likely developments in the operations of the Company and likely results of those operations would, in the opinion of Directors, be speculative.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed elsewhere in this Directors' Report, there have been no significant changes in the state of affairs of the Group during or since the end of the year ended 31 December 2021.

### ENVIRONMENTAL REGULATION

The Group is subject to environmental regulations under State and Territory laws in Australia and regulations applicable in the United Kingdom where it holds exploration permits and tenements. The Group is not aware of any breaches of these laws.

### SHARE OPTIONS

At the date of this report, unissued shares of the Group under option are:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY DATE
279,000,000	\$0.006	28/02/2024

### PERFORMANCE RIGHTS

At the date of this report, unissued shares of the Group pursuant to performance rights issued to incentivise its directors and employees:

RIGHTS CLASS	DATE GRANTED	EXPIRY DATE	NUMBER OF PERFORMANCE RIGHTS
Class A	29 May 2020	30 June 2025	25,625,000
Class B	29 May 2020	30 June 2027	25,625,000
Class F	8 September 2020	30 June 2027	80,000,000
Class G	8 September 2020	30 June 2027	80,000,000
Class J	26 October 2021	31 December 2024	4,500,000
Class K	26 October 2021	31 December 2025	7,500,000
Class L	26 October 2021	31 March 2025	3,500,000
Class M	26 October 2021	31 March 2026	4,500,000
Class N	26 October 2021	30 June 2025	750,000
Class O	26 October 2021	30 June 2026	750,000

### INDEMNIFICATION AND INSURANCE OF OFFICERS

The Company has agreements with each of the Directors and Officers of the Company in office at the date of this report and former Directors indemnifying them to the extent permitted by law against all liabilities incurred in their capacity as officers of the Company and its controlled entities and all reasonable legal costs incurred by any of them in the defence of an action for a liability incurred by that officer. The indemnity continues to have effect when the Directors and Officers cease to hold office.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability as such disclosures are prohibited under the terms of the contract.



# DIRECTORS' REPORT (Continued)

## DIRECTOR BIOGRAPHIES

### **Douglas Jendry (Non-Executive Chairman)**

Mr Jendry has had a distinguished career in the resources sector having worked as a geologist and, over the last 25 years, in various consulting, advisor and director roles with ASX and AIM listed companies. He has broad experience in all aspects of the oil and gas industry and has had significant dealings over the years with brokers, investment bankers and various government authorities alike.

Significantly, Mr Jendry has strong experience in the Perth Basin, commencing in the early 1980's when he was involved in the exploration and development of the Mt Horner oil field in the Northern Perth Basin with private company Pacific Basin Exploration.

In 2001 he was involved in the drilling of the Walyering 4 well which, unfortunately, was a dry hole, the reason for which is now known following the interpretation of recently acquired 3D seismic data. Mr Jendry strongly believes in the potential of the Walyering field, in which Talon recently acquired a 45% interest alongside operator Strike Energy Limited.

#### **Interest in shares and options held as at date of this report:**

Mr Douglas Jendry & Mrs Julie Jendry <D J Super Fund A/C>

22,500,000 Fully Paid Ordinary Shares

20,000,000 unlisted options exercisable at \$0.006 on or before 28 February 2024

### **Colby Hauser (Managing Director and Chief Executive Officer), appointed 8 March 2022**

Mr Hauser brings to Talon a broad range of experience in senior corporate, commercial, and business development roles in the energy sector, and most recently held the position of General Manager, Commercial at Strike Energy Limited (Strike). Strike is the operator of EP447, which contains the highly prospective Walyering gas project.

In his roles in the energy sector, Mr Hauser has developed a specialised skill set including corporate strategy, gas sales and marketing, joint venture representation, project development, as well as investor and government/stakeholder relations. Mr Hauser has significant long-term experience in the Perth Basin and is well known in the Perth energy community where he was formerly the President and is now a Life Member of the Energy Club of WA (formerly Petroleum Club of WA).

#### **Interest in shares and options held as at date of this report:**

Mr Colby Todd Hauser <Aurora Investment Trust>

500,000 Fully Paid Ordinary Shares

### **David Casey (Non-Executive Director), acted as Managing Director/CEO throughout the year**

David graduated with an Honours degree in Geology from the University of Sydney in 1991 and has spent the past 30 years working in the oil and gas industry, in Australia and overseas.

Mr Casey has been actively involved overseeing the start-up, development and sale of successful exploration and production projects. He has managed and evaluated all aspects of conventional and unconventional oil and gas exploration and appraisal, from initial reservoir characterisation and fairway identification, through to drilling, testing and production operations. He has substantial experience managing ASX-listed entities and is well known to the Australian institutional investment community.

# DIRECTORS' REPORT (Continued)

## DIRECTOR BIOGRAPHIES (Continued)

He was previously Managing Director of Eastern Star Gas Limited and was responsible for the sale of the company to Santos. Most recently, Mr Casey was Managing Director of Petrel Energy Limited and recently arranged a reverse takeover of Petrel by Warrego Energy Limited.

### Interest in shares and options held as at date of this report:

Hayrow Pty Ltd <David Casey Superannuation Fund>  
37,500,000 Fully Paid Ordinary Shares

D.A. Casey & Associates Pty Limited <David Casey Family A/C>  
160,000,000 Incentive Performance Rights

### Matthew Worner (Executive Director)

Mr Worner is an experienced oil and gas executive who has worked with ASX and London listed E&P companies in various legal, commercial and new ventures/business development roles. He has overseen the completion of multiple asset acquisitions and divestments the world over, including Asia, Africa, US and Australasia as well as significant experience dealing with joint venture partners, host governments and NOCs in these regions.

### Interest in shares and options held as at date of this report:

Mr Matthew McNeill Worner <MM Worner Family A/C>  
1,533,333 Fully Paid Ordinary Shares  
40,000,000 Performance Rights

Mr Matthew McNeill Worner  
40,000,000 options exercisable at \$0.006 on or before 28 February 2024

### Stephen Jenkins (Non-Executive Director), resigned 23 February 2022

A geologist by profession and with a career spanning 35 years, Mr Jenkins is widely recognised as one of the most capable oil and gas executives in the United Kingdom.

Stephen was founder and CEO of Nautical Petroleum plc, an AIM listed E&P company with a significant portfolio of exploration and appraisal assets in the UK North Sea, including the pre-development projects at the Mariner, Kraken and Catcher Field areas. Having listed on AIM with a single asset in 2005, Nautical Petroleum was acquired by Cairn Energy plc in 2012 for £414 million.

Stephen is currently Chairman of the UK Oil and Gas Independents Association, and Non-Executive Chairman of both Savannah Petroleum plc, an AIM listed E&P company focused on Africa and Terrain Energy a private company with oil and gas interests onshore UK and Germany. Stephen was a founding shareholder and director of EnCounter Oil plc, which was acquired by Talon.

### Interest in shares and options held as at date of resignation

Stephen Jenkins  
15,000,000 Fully Paid Ordinary Shares  
11,250,000 Performance Rights

## DIRECTORS' REPORT (Continued)

### DIRECTORS' MEETINGS

The number of board meetings held during the year that each Director was entitled to attend and the number of meetings attended by each director was as follows:

	DIRECTORS' MEETINGS	
	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED
Douglas Jendry	10	10
David Casey	10	10
Matthew Worner	10	10
Stephen Jenkins <sup>1</sup>	10	10

<sup>1</sup> Resigned 23 February 2022.

### REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration for each key management person of Talon Energy Ltd, and for the executives receiving the highest remuneration.

#### Remuneration Policy

The remuneration policy of Talon Energy Ltd has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The Board of Talon Energy Ltd believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the Group is as follows:

- Review and approve the Group's recruitment, retention and termination policies and procedures for senior executives to enable the Company to attract and retain executives and Directors who can create value for shareholders.
- Review the on-going appropriateness and relevance of the executive remuneration policy and other executive benefit programs.
- Ensure that remuneration policies fairly and responsibly reward executives having regard to the performance of the Company, the performance of the executive and prevailing remuneration expectations in the market.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Key management personnel are also entitled to participate in the employee share and option arrangements.

All remuneration paid to key management personnel is valued at the cost to the Company and expensed. Shares given to key management personnel are valued as the difference between the market price of those shares and the amount paid by key management personnel. Options are valued using the Black-Scholes methodology.

# DIRECTORS' REPORT (Continued)

## REMUNERATION REPORT (AUDITED) (Continued)

### Performance-based Remuneration

As part of each member of the key management personnel's remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between key management personnel with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the areas each key management personnel are involved in and have a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short- and long-term goals. The level set for each KPI is based on budgeted figures for the group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

### Company Performance, Shareholder Wealth and Director and Executive Remuneration

#### Key Management Personnel Remuneration Policy

The Board's policy for determining the nature and amount of remuneration of key management for the Group is as follows:

The remuneration structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Company. The contracts for service between the Company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future.

### NON-EXECUTIVE DIRECTOR REMUNERATION

The Board seeks to set aggregate remuneration for Non-Executive Directors at a level that gives the Company the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is reasonable, competitive and acceptable to shareholders.

#### *Maximum aggregate amount*

Aggregate remuneration to Non-Executive Directors approved by the shareholders at the Annual General Meeting on 30 May 2014 is not to exceed \$300,000 per annum unless further approval is obtained.

The Directors agree the amount of remuneration for Non-Executive Directors each year (which cannot exceed the maximum amount determined by shareholders) and the manner in which it is divided between Directors. The Board's current practice is to apportion a higher fee to the Non-Executive Chairman than to the Non-Executive Directors.

The Board encourages Non-Executive Directors to hold shares in the Company (purchased by Directors on market). The Board considers it good governance for a Director to have a stake in the company in which they serve as a Board member.

#### *Voting and comments made at the company's 2020 Annual General Meeting ('AGM')*

At the 2020 AGM, held 28 May 2021, 99% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2020. The company did not receive any specific feedback at the AGM regarding its remuneration practices.



# DIRECTORS' REPORT (Continued)

## REMUNERATION REPORT (AUDITED) (Continued)

### COMPANY PERFORMANCE

	2021	2020	2019	2018	2017
Net loss after tax	(\$4,279,597)	(\$1,012,934)	(\$1,517,293)	(\$932,196)	(\$585,917)
Dividends paid or provided	Nil	Nil	Nil	Nil	Nil
Share price at end of year	\$0.0075	\$0.004	\$0.0025	\$0.002	\$0.007
Basic Loss per share (cents)	(0.07)	(0.04)	(0.09)	(0.09)	(0.21)

### Remuneration

The remuneration of Directors for the year ended 31 December 2021, and at the date of this report, is detailed below.

### MATERIAL TERMS OF AGREEMENTS IN PLACE DURING THE YEAR

DIRECTOR	DATE OF APPOINTMENT	1 JAN 2021 – 28 FEB 2021	1 MAR 2021 – 30 SEPT 2021	1 OCT 2021 – 31 DEC 2021	DATE OF THIS REPORT
Douglas Jendry	13 October 2020	\$48,000	\$48,000	\$48,000	\$48,000
Stephen Jenkins <sup>1</sup>	7 June 2019	\$40,000	\$40,000	\$40,000	-
Colby Hauser	8 March 2022	-	-	-	\$300,000*
David Casey <sup>2</sup>	19 July 2020	\$250,000*	\$250,000*	\$300,000*	\$36,364*
Matthew Worner	17 December 2018	\$165,000*	\$100,000*	\$100,000*	\$100,000*

<sup>1</sup> Resigned 23 February 2022.

<sup>2</sup> transitioned to a Non-Executive Director from 1 January 2022.

\* Exclusive of superannuation.

Name	Douglas Jendry
Title	Non-Executive Chairman
Agreement Dates	13 October 2020 to current
Details	Mr Jendry is a non-executive director of the company and as such his engagement is governed by an appointment letter. In accordance with the engagement letter Mr Jendry is paid \$48,000 p.a. (inclusive of superannuation) Mr Jendry's engagement does not provide for any termination benefits.

Name	Stephen Jenkins
Title	Non-Executive Director
Agreement Dates	7 June 2019 to 23 February 2022
Details	Mr Jenkins' is a non-executive director of the company and as such his engagement is governed by an appointment letter. In accordance with the engagement letter Mr Jenkins is paid \$40,000 p.a. (inclusive of superannuation) Mr Jenkins' engagement does not provide for any termination benefits.

# DIRECTORS' REPORT (Continued)

## REMUNERATION REPORT (AUDITED) (Continued)

### MATERIAL TERMS OF AGREEMENTS IN PLACE DURING THE YEAR (CONTINUED)

Name	David Casey
Title	Non-Executive Director
Agreement Dates	19 July 2020 (Managing Director & CEO) – Transitioned to Non-Executive Director 1 January 2022 to current
Details	<p>Base Salary for the year ending 31 December 2021 of \$300,000 p.a. plus superannuation, to be reviewed annually. 1 month notice period on termination, cash bonus payable at the discretion of the board, subject to KPI achievement.</p> <p>On transition to Non-Executive Director on 1 January 2022, Mr Casey's engagement is governed by an appointment letter. In accordance with the engagement letter Mr Casey is paid \$40,000 p.a (inclusive of superannuation).</p>

Name	Matthew Worner
Title	Executive Director
Agreement Dates	17 December 2018 to current
Details	<p>Base Salary for the year ending 31 December 2021 of \$100,000 p.a. plus superannuation, to be reviewed annually. 1 month notice period on termination, cash bonus payable at the discretion of the board, subject to KPI achievements.</p>

Remuneration may also be in the form of equity-based compensation. Any issue of equity instruments as remuneration is at the discretion of the board.

### REMUNERATION FOR 2021

Remuneration of key management personnel of the Company for the year ended 31 December 2021:

2021	SHORT-TERM BENEFITS				POST-EMPLOYMENT BENEFITS		
	CASH, SALARY AND FEES	BONUS	OTHERS	SHARE BASED PAYMENTS	TERMINATION BENEFITS	SUPERANNUATION	TOTAL
	\$	\$	\$	\$	\$	\$	\$
Douglas Jendry	48,000	-	-	97,505	-	-	145,505
David Casey	278,217	-	-	652,290*	-	23,659	954,166
Matthew Worner	118,528	-	-	203,468	-	11,549	333,545
Stephen Jenkins <sup>1</sup>	40,000	-	-	9,130	-	-	49,130
<b>Total Directors</b>	<b>484,745</b>	<b>-</b>	<b>-</b>	<b>962,393</b>	<b>-</b>	<b>35,208</b>	<b>1,482,346</b>

<sup>1</sup>Resigned 23 February 2022.

\*On 31 December 2021, with the transition from Managing Director to Non-Executive Director, Mr David Casey and the Company mutually agreed to the cancellation of 167,678,954 Performance Rights. In accordance with AASB 2, an expense of \$424,492 was immediately recognised at 31 December relating to the cancellation of these Rights.

# DIRECTORS' REPORT (Continued)

## REMUNERATION REPORT (AUDITED) (Continued)

### REMUNERATION FOR 2020

2020	SHORT-TERM BENEFITS				POST-EMPLOYMENT BENEFITS		TOTAL
	CASH, SALARY & FEES	BONUS	OTHERS	SHARE BASED PAYMENTS	TERMINATION BENEFITS	SUPERANNUATION	
	\$	\$	\$	\$	\$	\$	\$
Douglas Jendry <sup>1</sup>	12,000	-	-	-	-	-	12,000
David Casey <sup>2</sup>	113,225	-	-	155,691	-	10,756	279,672
Matthew Worner	173,460	-	-	62,743	-	16,479	252,682
Stephen Jenkins	30,000	-	-	10,895	-	-	40,895
Peter Stickland <sup>3</sup>	32,097	-	-	26,700	-	-	58,797
Graham Doré <sup>4</sup>	21,398	-	-	10,895	-	-	32,293
<b>Total Directors</b>	<b>382,180</b>	<b>-</b>	<b>-</b>	<b>266,924</b>	<b>-</b>	<b>27,235</b>	<b>676,339</b>

<sup>1</sup>Appointed 13 October 2020.

<sup>2</sup>Appointed 19 July 2020.

<sup>3</sup>Resigned 13 October 2020.

<sup>4</sup>Resigned 13 October 2020.

### EQUITY HOLDINGS OF KEY MANAGEMENT PERSONNEL

As at the year end, the relevant beneficial interest of each Director in the ordinary share capital of the Company shown in the register of Directors' shareholdings is as follows:

	YEAR	SHARES HELD AT 1 JANUARY	NET ACQUISITIONS AND DISPOSALS DURING THE YEAR	RECEIVED ON EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR	SHARES HELD AT 31 DECEMBER
<b>Directors</b>						
Douglas Jendry	2021	15,000,000	-	7,500,000	-	22,500,000
	2020	-	15,000,000	-	-	15,000,000
David Casey	2021	25,000,000	-	-	-	25,000,000
	2020	-	-	-	25,000,000	25,000,000
Matthew Worner	2021	1,533,333	-	-	-	1,533,333
	2020	1,533,333	-	-	-	1,533,333
Stephen Jenkins	2021	15,000,000	-	-	-	15,000,000
	2020	15,000,000	-	-	-	15,000,000
Peter Stickland <sup>1</sup>	2020	10,000,000	15,000,000	-	(25,000,000)	-
Graham Doré <sup>1</sup>	2020	22,000,000	8,000,000	-	(30,000,000)	-

<sup>1</sup>Resigned 13 October 2020 therefore KMP holding at 31 Dec 2020 was nil.

## DIRECTORS' REPORT (Continued)

### REMUNERATION REPORT (AUDITED) (Continued)

#### UNLISTED OPTIONS

As at year end, the relevant beneficial interest of each Director in unlisted options over ordinary share capital of the Company shown in the register of Directors' unlisted option holdings are as follows:

	YEAR	OPTIONS HELD AT 1 JANUARY	ISSUED DURING THE YEAR	EXERCISED, EXPIRED OR FORFEITED DURING THE YEAR	OTHER MOVEMENT	OPTIONS HELD AT 31 DECEMBER	% VESTED AND EXERCISABLE AT 31 DECEMBER
<b>Directors</b>							
Douglas Jendry	2021	7,500,000	20,000,000	(7,500,000) <sup>3</sup>	-	20,000,000	100%
	2020	-	7,500,000 <sup>2</sup>	-	-	7,500,000	-
David Casey	2021	12,500,000	-	-	-	12,500,000	100%
	2020	-	12,500,000 <sup>2</sup>	-	-	12,500,000	100%
Matthew Worner	2021	-	40,000,000	-	-	40,000,000	100%
	2020	30,000,000	-	(30,000,000) <sup>4</sup>	-	-	-
Stephen Jenkins	2021	-	-	-	-	-	-
	2020	-	-	-	-	-	-
Peter Stickland <sup>1</sup>	2020	-	5,000,000 <sup>2</sup>	-	(5,000,000) <sup>1</sup>	-	-
Graham Dorè <sup>1</sup>	2020	-	-	-	-	-	-

<sup>1</sup> Resigned 13 October 2020 therefore KMP holding at 31 Dec 2020 was nil.

<sup>2</sup> Free attaching options on Director participation in capital raise on same terms as all other shareholders.

<sup>3</sup> Unlisted options exercised during the period at \$0.004.

<sup>4</sup> Unlisted options lapsed.

#### PERFORMANCE SHARES

As at year end, the relevant beneficial interest of each Director in the performance share capital of the Company shown in the register of Directors' shareholdings is as follows:

	YEAR	SHARES HELD AT 1 JANUARY	NET ACQUISITIONS AND DISPOSALS DURING THE YEAR	RECEIVED ON EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR	PERFORMANCE SHARES HELD AT 31 DECEMBER
<b>Directors</b>						
Douglas Jendry	2021	-	-	-	-	-
	2020	-	-	-	-	-
David Casey	2021	-	-	-	-	-
	2020	-	-	-	-	-
Matthew Worner	2021	-	-	-	-	-
	2020	-	-	-	-	-
Stephen Jenkins	2021	22,500,000	-	-	(22,500,000)	-
	2020	22,500,000	-	-	-	22,500,000
Peter Stickland <sup>1</sup>	2020	-	-	-	-	-
Graham Dorè <sup>1</sup>	2020	108,000,000	-	-	(108,000,000)	-

<sup>1</sup> Resigned 13 October 2020 therefore KMP holding at 31 Dec 2020 was nil.



## DIRECTORS' REPORT (Continued)

### REMUNERATION REPORT (AUDITED) (Continued)

#### PERFORMANCE RIGHTS

As at year end, the relevant beneficial interest of each Director in performance rights capital of the Company shown in the register of Directors' shareholdings is as follows:

	YEAR	RIGHTS HELD AT 1 JANUARY	NET ACQUISITIONS AND DISPOSALS DURING THE YEAR	RECEIVED ON EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR	PERFORMANCE RIGHTS HELD AT 31 DECEMBER
<b>Directors</b>						
Douglas Jendry	2021	-	-	-	-	-
	2020	-	-	-	-	-
David Casey	2021	327,678,954	-	-	(167,678,954) <sup>2</sup>	160,000,000
	2020	-	327,678,954	-	-	327,678,954
Matthew Worner	2021	80,000,000	-	-	(40,000,000) <sup>3</sup>	40,000,000
	2020	-	80,000,000	-	-	80,000,000
Stephen Jenkins	2021	11,250,000	-	-	-	11,250,000
	2020	-	11,250,000	-	-	11,250,000
Peter Stickland <sup>1</sup>	2020	-	15,000,000	-	(15,000,000)	-
Graham Doré <sup>1</sup>	2020	-	11,250,000	-	(11,250,000)	-

<sup>1</sup> Resigned 13 October 2020 therefore KMP holding at 31 Dec 2020 was nil.

<sup>2</sup> 167,678,954 cancelled as mutually agreed by the Company and Mr Casey on transition to Non-Executive Director.

<sup>3</sup> Lapsed as vesting conditions were not met during the year.

#### OTHER STATUTORY INFORMATION

##### Terms and conditions of share-based payment arrangements

##### Options

During the year 40,000,000 incentive options were issued to Matthew Worner and a further 20,000,000 issued to Douglas Jendry, subsequent to shareholder approval received on 26 March 2021. The options vested immediately, with key inputs to the valuation (Black-Scholes) noted below:

DIRECTOR OPTIONS	
Valuation date	1 April 2021
Expected volatility (%)	100%
Risk-free interest rate (%)	0.11%
Expected life of option (years)	2.91 years
Option exercise price (\$)	\$0.006
Share price at grant date (\$)	\$0.0075
Expiry date	28 Feb 24
Value per option	\$0.0049

# DIRECTORS' REPORT (Continued)

## REMUNERATION REPORT (AUDITED) (Continued)

### OTHER STATUTORY INFORMATION (Continued)

#### Performance Rights

	PERFORMANCE CONDITION	VESTING DATE	EXPIRY DATE	FAIR VALUE PER RIGHT
CLASS A	20-day VWAP above \$0.003 prior to 30 June 2022	30 June 2021	30 June 2025	\$0.00177
CLASS B	20-day VWAP above \$0.00485 prior to 30 June 2024	30 June 2021	30 June 2027	\$0.00179
CLASS C <sup>1</sup>	Farm out one of Company's projects & move into the drilling phase in respect of the licence the subject of the farm-out	31 December 2021	30 June 2025	\$0.0020
	Satisfaction of Class C and not the project of Class C, farm out one of Company's projects & move into the drilling phase in respect of the licence the subject of the farm-out	31 December 2022	30 June 2026	\$0.0020
CLASS D <sup>1</sup>	Formalise farm-in of Walyering and complete capital raise >\$3m at or above \$0.002 per share	19 July 2022	30 June 2025	\$0.0030
CLASS E <sup>2</sup>	20-day VWAP above \$0.004 prior to 30 June 2022	19 July 2022	30 June 2027	\$0.0027
CLASS F <sup>2</sup>	20-day VWAP above \$0.008 prior to 30 June 2024	19 July 2022	30 June 2027	\$0.0026
CLASS G <sup>2</sup>				

<sup>1</sup> Vesting condition was not met during the period and the performance rights lapsed.

<sup>2</sup> 167,678,954 cancelled as mutually agreed by the Company and Mr Casey on transition to Non-Executive Director.

#### Director holdings by class as at 31 December 2021

	DAVID CASEY	MATTHEW WORNER	STEPHEN JENKINS	TOTAL
CLASS A	-	20,000,000	5,625,000	25,625,000
CLASS B	-	20,000,000	5,625,000	25,625,000
CLASS F	80,000,000	-	-	80,000,000
CLASS G	80,000,000	-	-	80,000,000
VESTED AND EXERCISABLE	-	40,000,000	11,250,000	51,250,000
UNVESTED	160,000,000	-	-	160,000,000
MAXIMUM VALUE YET TO VEST	\$117,712			\$117,712

#### Transactions with Director related entities

Directors and officers, or their personally related entities, hold positions in other entities that result in them having controls or significant influence over the financial or operating policies of those entities.

ENTITY	RELATIONSHIP	NATURE OF TRANSACTIONS	TRANSACTIONS		BALANCES	
			2021 \$	2020 \$	2021 \$	2020 \$
Geoscience Services Limited	(i)	Reimbursement for corporate administrative and travel costs	-	105,589	-	-
Springhead Petroleum Pty Ltd	(ii)	Reimbursement for corporate travel costs	-	278	-	-
David Casey	(iii)	Reimbursement for corporate travel costs	691	1,195	-	-
Hedgepig Growth Limited	(iv)	Reimbursement for corporate travel costs	-	1,656	-	-

(i) Geoscience Services Limited is a company associated with Graham Doré who was a Director of the Company, up until his resignation on 13 October 2020.

(ii) Springhead Petroleum Pty Ltd is a company associated with Peter Stickland who was a Director of the Company, up until his resignation on 13 October 2020.

(iii) David Casey is a Director of the Company, appointed on 19 July 2020.

(iv) Hedgepig Growth Limited is a company associated with Stephen Jenkin who was a Director of the Company.

**This is the end of the Remuneration Report.**

## DIRECTORS' REPORT (Continued)

### AUDITOR

BDO Audit (WA) Pty Ltd has been appointed auditor of the Company in accordance with section 327 of the *Corporations Act 2001*.

### NON-AUDIT SERVICES

During the current financial year BDO, the Company's auditor did not perform any other services in addition to their statutory duties.

### AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration as required under section 307C of the Corporations Act is set out on page 28 of this Annual Report and forms part of the Directors' Report for the year ended 31 December 2021.

Made and signed in accordance with a resolution of Directors.




**Colby Hauser**

Managing Director and CEO  
Dated 29 March 2022



# 2021 FINANCIAL REPORT





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# AUDITOR'S INDEPENDENCE DECLARATION



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## DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF TALON ENERGY LIMITED

As lead auditor of Talon Energy Limited for the year ended 31 December 2021, I declare that, to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to read 'Dean Just', is written over a light grey horizontal line.

**Dean Just**  
**Director**

**BDO Audit (WA) Pty Ltd**  
Perth, 29 March 2022

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# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 \$	2020 \$
Revenue	4	8,659	37,879
Cost of oil and gas sold	5a	(7,634)	(31,439)
<b>Net margin on sale of oil and gas</b>		<b>1,025</b>	<b>6,440</b>
Other income	5b	43,236	81,166
Employee benefits		(103,697)	(71,832)
Professional and consultancy fees	20	(1,152,497)	(119,424)
Marketing and travel expenses		(177,329)	(43,982)
Corporate and administrative expenses		(522,513)	(127,262)
Directors' fees	5c	(519,951)	(409,415)
Share based payment expense	20	(1,114,293)	(266,924)
Exploration expenditure		(385,840)	(216,309)
Impairment expense	9	(341,137)	(36,207)
Adjustment of restoration provision		-	193,068
Finance costs		(6,601)	(2,253)
<b>Loss before income tax</b>		<b>(4,279,597)</b>	<b>(1,012,934)</b>
Income tax expense	6	-	-
<b>Loss after income tax</b>		<b>(4,279,597)</b>	<b>(1,012,934)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation differences, net of tax		834	(16,508)
<b>Other comprehensive income/(loss) (net of tax) for the year</b>		<b>834</b>	<b>(16,508)</b>
<b>Total comprehensive loss attributable to owners of the company</b>		<b>(4,278,763)</b>	<b>(1,029,442)</b>
<b>Basic loss per share(cents)</b>	15	<b>(0.07)</b>	<b>(0.04)</b>
<b>Diluted loss per share (cents)</b>	15	<b>(0.07)</b>	<b>(0.04)</b>

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

		2021	2020
	Notes	\$	\$
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	6,714,830	4,657,871
Trade and other receivables		88,110	33,964
Prepayments		30,421	27,063
Security deposit	8a	27,300	64,872
<b>Total Current Assets</b>		<b>6,860,661</b>	<b>4,783,770</b>
<b>Non-Current Assets</b>			
Farm-in deposit	8b	-	1,000,000
Exploration and evaluation asset	9	8,948,069	341,137
<b>Total Non-Current Assets</b>		<b>8,948,069</b>	<b>1,341,137</b>
<b>Total Assets</b>		<b>15,808,730</b>	<b>6,124,907</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	11	1,526,503	143,147
Provisions		5,128	44,769
Deferred consideration	22	688,375	-
<b>Total Current Liabilities</b>		<b>2,220,006</b>	<b>187,916</b>
<b>Total Liabilities</b>		<b>2,220,006</b>	<b>187,916</b>
<b>Net Assets</b>		<b>13,588,724</b>	<b>5,936,991</b>
<b>Contributed Equity</b>			
Issued share capital	12	51,889,202	42,804,237
Reserves	13	6,009,297	3,162,932
Accumulated losses		(44,309,775)	(40,030,178)
<b>Total Equity</b>		<b>13,588,724</b>	<b>5,936,991</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	ISSUED SHARE CAPITAL	SHARE BASED PAYMENT RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	ACCUMULATED LOSSES	TOTAL EQUITY
	\$	\$	\$	\$	\$
<b>Balance as at 1 January 2021</b>	42,804,237	522,279	2,640,653	(40,030,178)	5,936,991
<b>Total comprehensive loss for the period</b>					
Loss after income tax expense for the year	-	-	-	(4,279,597)	(4,279,597)
Foreign exchange translation differences	-	-	834	-	834
<b>Total comprehensive loss for the year</b>	-	-	834	(4,279,597)	(4,278,763)
<b>Transaction with owners, recorded directly in equity</b>					
Issue of share placement, net of transaction costs	4,065,640	530,520	-	-	4,596,160
Transfer from conversion of performance rights	76,725	(76,725)	-	-	-
Exercise of options	4,390,600	-	-	-	4,390,600
Share based payment	552,000	2,391,736	-	-	2,943,736
<b>Balance as at 31 December 2021</b>	<b>51,889,202</b>	<b>3,367,810</b>	<b>2,641,487</b>	<b>(44,309,775)</b>	<b>13,588,724</b>
<b>Balance as at 1 January 2020</b>	<b>38,183,402</b>	<b>200,355</b>	<b>2,657,161</b>	<b>(39,017,244)</b>	<b>2,023,674</b>
<b>Total comprehensive loss for the period</b>					
Loss after income tax expense for the year	-	-	-	(1,012,934)	(1,012,934)
Foreign exchange translation differences	-	-	(16,508)	-	(16,508)
<b>Total comprehensive loss for the year</b>	-	-	(16,508)	(1,012,934)	(1,029,442)
<b>Transaction with owners, recorded directly in equity</b>					
Issue of shares, net of transaction costs	4,620,835	55,000	-	-	4,675,835
Share based payment	-	266,924	-	-	266,924
<b>Balance as at 31 December 2020</b>	<b>42,804,237</b>	<b>522,279</b>	<b>2,640,653</b>	<b>(40,030,178)</b>	<b>5,936,991</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

		<b>2021</b>	<b>2020</b>
	<i>Notes</i>	\$	\$
<b>Cash flows from operating activities</b>			
Cash receipts from customers		8,659	44,671
Payments to suppliers and employees		(1,635,907)	(735,859)
Payments for exploration and evaluation expenditure		(385,840)	(216,309)
Interest received		14,331	19,044
Government grants received		-	62,122
<b>Net cash used in operating activities</b>	<i>16</i>	<b>(1,998,757)</b>	<b>(826,331)</b>
<b>Cash flows from investing activities</b>			
Payment of exploration and evaluation expenditure		(4,976,339)	-
Deposit for acquisition of exploration and evaluation asset		-	(1,000,000)
<b>Net cash used in investing activities</b>		<b>(4,976,339)</b>	<b>(1,000,000)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issuance of shares		5,050,025	5,000,000
Proceeds from exercise of options		4,390,600	-
Share issue costs		(403,839)	(324,165)
<b>Net cash from financing activities</b>		<b>9,036,786</b>	<b>4,675,835</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,061,690</b>	<b>2,849,504</b>
Cash and cash equivalents at the beginning of year		4,657,871	1,850,954
Effects of exchange rate changes on the balances held in foreign currencies		(4,731)	(42,587)
<b>Cash and cash equivalents at the end of the financial year</b>	<i>7</i>	<b>6,714,830</b>	<b>4,657,871</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

Talon Energy Limited (the “Company” or “Talon”) is a company incorporated and domiciled in Australia whose shares are publicly listed on the ASX (ASX code: TPD). The Company’s registered office is at 1202 Hay Street, West Perth, WA 6005. The consolidated financial statements of the Company as at and for the year ended 31 December 2021 comprise the Company and its subsidiaries (together referred to as the “Group”). The Group is a for-profit entity whose principal activity during the financial year was to identify and capture new oil and gas assets for the purpose of exploration.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (“AASBs”) adopted by the Australian Accounting Standards Board (“AASB”) and the Corporations Act 2001. The consolidated financial statements of the Group comply with International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board.

The consolidated financial statements were authorised for issue by the Board of Directors on 24 March 2021.

### b) New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (“AASB”) that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

### c) Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

### d) Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to realise its assets and extinguish its liabilities in the ordinary course of business.

The Group incurred a loss of \$4,279,597 (2020: \$1,012,934) for the year ended 31 December 2021 and had cash and cash equivalents of \$6,714,830 (2020: \$4,657,871) as at that date, with net cash outflows from operations of \$1,998,757 (2020: \$826,331) for the year.

The Group’s cashflow forecasts for the 12 months ending 31 March 2023 indicate that the Group will require additional capital to meet its expenditure requirements and carry out its planned activities. The Group’s ability to continue as a going concern is principally dependent upon its ability to secure funds by raising capital from equity markets or by other means, and by managing cash flows in line with available funds, and/or the successful development of its exploration assets.

These conditions indicate a material uncertainty that may cast significant doubt about the entity’s ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors are satisfied that additional capital can be raised as and when required to meet its current commitments and further planned activities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Based on the matters detailed above, the Directors are satisfied that the going concern basis of preparation is appropriate and that the Group will be able to realise its assets and settle its obligations in the ordinary course of business over the next 12 months.

Should the entity not be able to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The consolidated financial report does not include any adjustments relating to the recoverability and classification of the recorded asset amounts, nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

### e) Basis of consolidation

#### *Subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

#### *Transactions eliminated on consolidation*

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

### f) 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 Energy 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.

#### *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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### g) Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint arrangements are either classified as a joint operation or a joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which only exists when decisions about the relevant activities require the unanimous consent of the parties sharing control. Classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to net assets of the arrangement.

The Company applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture. These judgements take into consideration the rights and obligations provided for by the structure and legal form of the arrangement, the terms agreed to by the parties in the contractual agreement, and, when relevant, other facts and circumstances. These judgements are reassessed and re-evaluated as facts and circumstances change regarding the joint arrangement.

For joint arrangements classified as joint operations, the Company recognises in its financial statements, its proportionate interest in:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

For joint arrangements classified as joint ventures, the Company recognises its interest in the joint venture as an investment and accounts for that investment using equity method accounting as prescribed in AASB 11 Joint Arrangements unless the Company is exempted by a specific exemption according to that Standard.

### h) Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost less the provision for impairment. The Group will apply the simplified impairment methodology permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivable trade receivables are generally due for settlement within 60 days from the date of sale. Other receivables are generally settled within 30 days.

### i) Exploration and evaluation expenditure

Exploration and evaluation costs are expensed in the year they are incurred apart from acquisition costs which are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Where an area of interest is abandoned or the directors decide that it is not commercial, any accumulated acquisition costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.

### j) Impairment

#### *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. AASB 9's new forward looking impairment model applies to investments at amortised cost.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

### **Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss and are allocated to reduce the carrying amount of the assets in the unit on a pro rata basis.

An impairment loss may be reversed in a future period if there has been a change in the estimates used to determine the recoverable amount. The amount of impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **k) Trade and Other Payables**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

### **l) Employee benefits**

#### **Short term obligations**

Liabilities for employee benefits for wages and salaries, including non-monetary benefits, annual and personal leave that are expected to be settled within 12 months of the reporting date represent short term obligations resulting from employees' services provided to balance sheet date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at balance sheet date, including related on-costs. Obligations for annual and personal leave are represented as provisions in current liabilities. All other short-term employee benefit obligations are presented with current payables.

#### **Defined contribution superannuation funds**

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the statement of comprehensive income as incurred.

#### **Long term incentives**

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### m) Ordinary shares

Issued and paid up capital is recognised at the fair value of the consideration received by the Group. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

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.

### n) Earnings per share

#### *Basic earnings per share*

Basic earnings per share is determined by dividing the profit / (loss) attributable to equity holders of the Company excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

#### *Diluted earnings per share*

Diluted earnings per share adjusts the amounts used in determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that may arise from the exercise of options outstanding during the financial year. As the Group incurred a net loss in the current and prior year, no options or performance rights have been included in the calculation of diluted earnings per share.

### o) Revenue Recognition

#### *Sale of oil and gas*

All revenue is generated from oil sales. Revenue from the sale of produced hydrocarbons is recognised when or as the Group transfers control of goods or services to a customer and can be measured reliably at the amount to which the Group expects to be entitled. Delivery of gas is by pipeline and sales contracts define the point of transfer in ownership.

### p) Other Income

#### *Other income*

Other income includes the net gain from the disposal of non-current assets. 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).

#### *Government grants*

Government grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit/loss, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

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.

### r) 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.

### s) Share-based payments

The Group provides benefits to Directors, employees, consultants and other advisors of the Group in the form of share-based payments, whereby the Directors, employees, consultants and other advisors render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black-Scholes model or fair value of services.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the market price of the shares of the Company if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant recipient becomes fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Company's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of profit or loss and other comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the recipient, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Judgements and estimates which are material to the financial report are noted below:

### *Exploration and evaluation costs*

Exploration and evaluation costs related to the acquisition (and or) farm-in of licences have been capitalised on the basis that the consolidated entity will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made. Refer to note 9 for further information.

### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Refer to note 20 for further information.

### *Deferred Tax*

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. Refer to note 6 for further information.

### *Fair Value Measurement*

Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective. The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs. Refer to note 22 for further information.

## 4. REVENUE

	2021	2020
Revenue	\$	\$
Oil sales	9,009	31,014
Gas sales	(350)	6,865
<b>Total revenue</b>	<b>8,659</b>	<b>37,879</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 5. EXPENSES AND OTHER INCOME

	2021	2020
	\$	\$
<b>a) Cost of oil and gas sold</b>		
Production taxes	418	1,605
Lease operating expenses, processing and transportation	7,216	29,834
	<b>7,634</b>	<b>31,439</b>
<b>b) Other income</b>		
Interest income	14,331	19,044
Other Income	28,905	-
Government grants	-	62,122
	<b>43,236</b>	<b>81,166</b>
<b>c) Directors' fees</b>		
Directors' fees	484,744	382,180
Superannuation contribution	35,207	27,235
	<b>519,951</b>	<b>409,415</b>

## 6. INCOME TAX BENEFIT

	2021	2020
	\$	\$
<b>The prima facie tax on profit /(loss) from continuing operations and discontinued operations before income tax is reconciled to the income tax as follows:</b>		
(Loss) before tax	(4,279,597)	(1,012,934)
Prima facie tax payable on (loss) from continuing operations and discontinued operations before income tax at 25% (2020:27.5%)	(1,069,899)	(278,557)
<b>Add:</b>		
<i>Tax effect of:</i>		
Other non-allowable items	786,878	83,167
Difference in tax rates	(31,813)	12,963
Impact of reduction in future corporate tax rate	429,809	-
<b>Less:</b>		
<i>Tax effect of:</i>		
Non-assessable items	(7,226)	(17,084)
DTA not recognised (losses)	350,677	262,107
DTA not recognised (temporary)	(458,426)	(62,596)
<b>Income tax expense/(benefit)</b>	<b>-</b>	<b>-</b>

No deferred tax assets have been recognised as yet, other than to offset deferred tax liabilities, as it is currently not probable that future taxable profit will be available to realise the asset. Potential deferred tax assets on carry forward losses amount to \$8,839,800 (2020: \$8,999,733).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits on call with financial institutions, and other short term, highly liquid investments.

	2021	2020
	\$	\$
Cash at bank	6,704,531	4,652,604
Term deposit	10,299	5,267
<b>Total cash and equivalents</b>	<b>6,714,830</b>	<b>4,657,871</b>

Refer to note 21a) for details on management of financial risk.

## 8. DEPOSITS

	2021	2020
(a) Current Assets	\$	\$
Security deposit relating to licences held by Texoz E&P	-	64,872
Other Deposits	27,300	-
<b>Total current deposits</b>	<b>27,300</b>	<b>64,872</b>

	2021	2020
(b) Non-Current Assets	\$	\$
Farm-in deposit with Strike Energy <sup>1</sup>	-	1,000,000
<b>Total non-current deposits</b>	<b>-</b>	<b>1,000,000</b>

<sup>1</sup> Deposit paid to Strike Energy as per Farm-in Agreement signed 11 September 2020. During the year, this amount was transferred to exploration and evaluation assets as an acquisition cost in accordance with the Group's accounting policies. Refer to note 9 for further information.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 9. EXPLORATION AND EVALUATION ASSETS

	2021	2020
	\$	\$
Opening net book amount	341,137	341,137
<i>Impairment: Skymoos &amp; Rocket*</i>	(341,137)	-
<i>Subtotal</i>	-	341,137
<b><u>Gurvantes XXXV project</u></b>		
Acquisition costs <sup>1</sup>	2,318,347	-
<i>Subtotal</i>	2,318,347	-
<b><u>Condor Project</u></b>		
Acquisition costs	629,722	-
<i>Subtotal</i>	629,722	-
<b><u>Walyering Project</u></b>		
Farm-in deposit with Strike Energy (refer note 8)	1,000,000	-
Acquisition costs**	5,000,000	-
<i>Subtotal</i>	6,000,000	-
<b>Total exploration and evaluation assets</b>	<b>8,948,069</b>	<b>341,137</b>

\* Applications to extend the expiry date on these projects were unsuccessful and lapsed on 30 September 2021.

\*\*In accordance with the Group's accounting policy, the acquisition terms of the 45% farm-in were met during the year (\$6m spend by Talon). All amounts exceeding the \$6,000,000 farm-in consideration are expensed in the profit or loss.

<sup>1</sup> Includes deferred consideration amounting to \$688,375 as disclosed in note 22.

## 10. INTEREST IN JOINT ARRANGEMENTS

In accordance with normal industry practice the Group has entered into joint operations arrangements with other parties for the purpose of exploring for and developing petroleum interests. If a party to a joint operation defaults and does not contribute its share of joint operation obligations, then the other joint operation participants may be liable to meet those obligations. In this event the interest in the prospect held by the defaulting party may be redistributed to the remaining joint participants.

As at the date of this report there Company has a 45% interest in the Walyering Project with Strike Energy Limited, and a farming in to a 33% interest in the Gurvantes XXXV Project with Telmen Resources LLC.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 11. TRADE AND OTHER PAYABLES

	2021	2020
Current	\$	\$
Trade payable	63,063	74,240
Accruals	1,448,076	35,065
Other payables	15,364	33,842
<b>Total trade and other payables</b>	<b>1,526,503</b>	<b>143,147</b>

Refer to note 21a) for details on management of financial risk.

## 12. SHARE CAPITAL

	2021	2020	2021	2020
	NUMBER	NUMBER	\$	\$
Ordinary shares on issue, fully paid	6,787,189,525	4,351,789,525	51,889,202	42,804,237

### Movements in ordinary share capital

Date	Details	NUMBER OF SHARES	ISSUE PRICE	\$
1 Jan 2020	Opening Balance	1,776,789,525		38,183,402
29 Jul 2020	Placement to professional and sophisticated investors	444,197,380	0.002	888,395
11 Sept 2020	Placement to professional and sophisticated investors	2,055,802,620	0.002	4,111,605
11 Sept 2020	Shares issued to lead manager	75,000,000	0.003	225,000
	Less: Costs of issue	-	-	(604,165)
<b>31 Dec 2020</b>	<b>Closing Balance</b>	<b>4,351,789,525</b>		<b>42,804,237</b>
9 Feb 2021	Placement to professional and sophisticated investors – Tranche 1 <sup>1</sup>	1,000,000,000	0.004	4,000,000
31 Mar 2021	Placement to professional and sophisticated investors – Tranche 2 <sup>1</sup>	250,000,000	0.004	1,000,000
31 Mar 2021	Issued for option to acquire Condor Project <sup>2</sup>	54,000,000	0.008	432,000
31 Mar 2021	Share based payments <sup>3</sup>	15,000,000	0.008	120,000
9 Sept 2021	Conversion of \$0.010 Performance Rights (H) <sup>4</sup>	3,000,000	0.010	30,000
Various	Conversion of \$0.004 Options <sup>5</sup>	1,087,150,000	0.004	4,390,600
Various	Conversion of Performance Rights (A&B) <sup>6</sup>	26,250,000	0.002	46,725
	Less: Costs of issue <sup>7</sup>			(934,360)
<b>31 Dec 2021</b>	<b>Closing Balance</b>	<b>6,787,189,525</b>		<b>51,889,202</b>

<sup>1</sup> On 3 February 2021, the Company announced to the ASX that commitments had been received to raise \$5,000,000 at \$0.004 per share. The transaction was completed in two tranches, with Tranche 1 completed on 9 Feb 2021 and the balance issued after shareholder approval on 31 March 2021.

<sup>2</sup> During the year, Talon signed an agreement with Macallum Group Limited for an option to acquire EP494 & SPA-0081 (Condor Project). The initial consideration included the issue of 54,000,000 shares subject to shareholder approval, which was received on 26 March 2021.

<sup>3</sup> Shares issued to consultant Rock Doc Pty Ltd for services relating to the progressing the Perth Basin projects, including the acquisition of, and screening of future potential acquisitions in licenses in the region.

<sup>4</sup> Conversion of \$0.010 Performance Rights (Class H) expiring 31 October 2024.

<sup>5</sup> Exercise of \$0.004 options expiring 28 February 2022.

<sup>6</sup> Conversion of Performance Rights (Class A&B) expiring on 30 June 2022 and 30 June 2024 respectively.

<sup>7</sup> Includes the issue of 100,000,000 broker options as referenced in note 20, amounting to \$530,520.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 13. RESERVES

### a) Share option reserve

	2021 \$	2020 \$
Opening balance at the beginning of the year	522,279	200,355
Share options reserve movement during the year	2,845,531	321,924
<b>Total share option reserve</b>	<b>3,367,810</b>	<b>522,279</b>

### b) Foreign currency translation reserve

The foreign currency translation reserve comprised all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity. Talon has four US based subsidiaries and two UK based subsidiaries (note 23) for which the functional currency is the US dollar and British pounds respectively. Translation into the presentation currency of Australian dollars creates a translation difference that is adjusted to the foreign currency reserve.

	2021 \$	2020 \$
Opening balance at the beginning of the year	2,640,653	2,657,161
Currency translation differences arising during the year	834	(16,508)
<b>Total foreign currency translation reserve</b>	<b>2,641,487</b>	<b>2,640,653</b>

	2021 \$	2020 \$
<b>Total reserves</b>	<b>6,009,297</b>	<b>3,162,932</b>

## 14. DIVIDENDS

No dividends have been declared, provided for or paid in 2021 (2020: nil). 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)

## 15. LOSS PER SHARE

	2021	2020
	\$	\$
Basic loss per share (cents)	(0.07)	(0.04)
Diluted loss per share (cents)	(0.07)	(0.04)
<b>Reconciliations of earnings to profit or loss</b>		
Loss used in the calculation of basic and diluted earnings per share	(4,279,597)	(1,012,934)
	<b>Number</b>	<b>Number</b>
<b>Weighted average number of ordinary shares and potential ordinary shares</b>		
Weighted average number of ordinary shares and potential ordinary shares used in calculating basic and diluted loss per share	5,905,214,491	2,613,418,798

## 16. CASH FLOW INFORMATION

	2021	2020
	\$	\$
<b>Reconciliation of cashflows from operations with loss after income tax</b>		
(Loss) after income tax	(4,279,597)	(1,012,934)
Cash flows excluded from loss attributable to operating activities		
Non-cash flows in loss:		
Impairment expense (O&G)	341,137	36,207
Share based payments expense	1,114,293	266,904
Share based payments expense (Consultants)	862,728	-
Adjustment to restoration provisions	-	(193,068)
Other Non-cash items	(6,600)	-
Net exchange differences	5,564	11,331
Changes in assets and liabilities, net of effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and other receivables	(13,332)	44,486
Increase/(decrease) in trade and other payables	(22,950)	20,743
<b>Net cash used in operating activities</b>	<b>(1,998,757)</b>	<b>826,331</b>

## 17. AUDITOR'S REMUNERATION

Audit services:	2021	2020
	\$	\$
Audit fees and review of financial reports – BDO Audit (WA) Pty Ltd	44,642	30,254
	<b>44,642</b>	<b>30,254</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 18. PARENT COMPANY DISCLOSURES

As at, and throughout, the financial year ended 31 December 2021 the parent entity of the Group was Talon Energy Limited.

### a) Summary of financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2021	2020
	\$	\$
Current assets	6,635,182	4,601,214
Non-current assets	7,733,214	1,444,843
<b>Total assets</b>	<b>14,368,396</b>	<b>6,046,057</b>
Current liabilities	779,672	109,067
Non-current liabilities	-	-
<b>Total liabilities</b>	<b>779,672</b>	<b>109,067</b>
Share capital	51,889,202	42,804,237
Reserves	3,367,810	522,279
Accumulated losses	(41,668,291)	(37,389,526)
<b>Total Equity</b>	<b>13,588,721</b>	<b>5,936,990</b>
<b>Loss for the year</b>	<b>(4,278,765)</b>	<b>(1,029,443)</b>
<b>Total comprehensive loss for the year</b>	<b>(4,278,765)</b>	<b>(1,029,443)</b>

### b) Commitments and contingent liabilities of the parent

The parent entity did not have any contingent liabilities or commitments, as at 31 December 2021 (2020: nil) other than as disclosed at note 25.

### c) Guarantees entered into the parent entity

There were no guarantees entered into by the parent entity, other than disclosed elsewhere within the report.

### d) Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in joint ventures are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 19. RELATED PARTIES

### a) Key Management Personnel Remuneration

Key management personnel compensation, including amounts paid and share-based payments in respect of services provided to the Group, comprised:

	2021	2020
	\$	\$
Short-term benefits	484,745	382,180
Post-employment benefits	35,208	27,235
Share based payments	962,393	266,924
	<b>1,482,346</b>	<b>676,339</b>

### b) Transactions with Director related entities

Directors and officers, or their personally related entities, hold positions in other entities that result in them having controls or significant influence over the financial or operating policies of those entities.

Details of the transactions including amounts accrued but unpaid at the end of the year are as follows:

ENTITY	RELATIONSHIP	NATURE OF TRANSACTIONS	TRANSACTIONS		BALANCES	
			2021	2020	2021	2020
			\$	\$	\$	\$
Geoscience Services Limited	(i)	Reimbursement for corporate administrative and travel costs	-	105,589	-	-
Springhead Petroleum Pty Ltd	(ii)	Reimbursement for corporate travel costs	-	278	-	-
David Casey	(iii)	Reimbursement for corporate travel costs	691	1,195	-	-
Hedgepig Growth Limited	(iv)	Reimbursement for corporate travel costs	-	1,656	-	-

(i) Geoscience Services Limited is a company associated with Graham Dorè who was a Director of the Company, up until his resignation on 13 October 2020.

(ii) Springhead Petroleum Pty Ltd is a company associated with Peter Stickland who was a Director of the Company, up until his resignation on 13 October 2020.

(iii) David Casey is a Director of the Company, appointed on 19 July 2020.

(iv) Hedgepig Growth Limited is a company associated with Stephen Jenkin who was a Director of the Company.

### c) Other related party transactions

During the year, 40,000,000 and 20,000,000 options were granted to Directors Matthew Worner and Douglas Jendry respectively. Refer to Note 20 for details of the terms, conditions and valuation of these options.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 20. SHARE BASED PAYMENTS

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

### Reconciliation of share-based payment reserve

	2021	2020
	\$	\$
Opening balance	522,279	200,355
Options issued to brokers <sup>1</sup>	530,520	55,000
Options issued to advisors/consultants	742,728	-
Incentive options issued to Directors	292,516	-
Options issued to vendors <sup>2</sup>	534,715	-
Vesting of performance rights	845,781	266,924
Reversal of expense for performance rights lapsing <sup>3</sup>	(24,004)	-
Transfer to issued capital on conversion of performance rights	(76,725)	-
<b>Closing balance</b>	<b>3,367,810</b>	<b>522,279</b>

<sup>1</sup> Recognised as a reduction in share capital as directly attributable to the issue of new capital.

<sup>2</sup> Recognised as capitalised exploration and evaluation assets as per Note 9.

<sup>3</sup> During the year, 20,000,000 Class C and 20,000,000 Class D performance rights lapsed upon failure to meet the associated vesting hurdle, resulting in a reversal of \$24,004 of previously recognised expense.

### 2021

A summary of convertible securities on hand at 31 December 2021 are as follows:

### Performance Rights

	Performance Condition	Service Condition	Expiry Date	Number of Rights	Vested and Exercisable
<b>Class A</b>	20-day VWAP above \$0.003 prior to 30 June 2022	30 June 2021	30 June 2025	25,625,000	25,625,000
<b>Class B</b>	20-day VWAP above \$0.00485 prior to 30 June 2024	30 June 2021	30 June 2027	25,625,000	25,625,000
<b>Class E<sup>1</sup></b>	Formalise farm-in of Walyering and complete capital raise >\$3m at or above \$0.002 per share	19 July 2022	30 June 2027	163,839,476	-
<b>Class F<sup>1</sup></b>	20-day VWAP above \$0.004 prior to 30 June 2022	19 July 2022	30 June 2027	81,919,739	-
<b>Class G<sup>1</sup></b>	20-day VWAP above \$0.008 prior to 30 June 2024	19 July 2022	30 June 2027	81,919,739	-
<b>Class J<sup>2</sup></b>	n/a	31 Dec 2021	31 Dec 2024	7,500,000	7,500,000
<b>Class K<sup>2</sup></b>	n/a	31 Dec 2022	31 Dec 2025	7,500,000	-
<b>Class L<sup>2</sup></b>	n/a	31 Mar 2022	31 Mar 2025	4,500,000	-
<b>Class M<sup>2</sup></b>	n/a	31 Mar 2023	31 Mar 2026	4,500,000	-
<b>Class N<sup>2</sup></b>	n/a	30 June 2022	30 June 2025	750,000	-
<b>Class O<sup>2</sup></b>	n/a	30 June 2023	30 June 2026	750,000	-
				<b>404,428,954</b>	

<sup>1</sup> 163,839,476 Class E, 1,919,739 Class F and 1,919,739 Class G Performance Rights. These cancelled performance rights were immediately expensed during the year. The financial year includes an expense of \$424,492 relating to performance rights that have been cancelled during the year.

<sup>2</sup> In October 2021, 28,500,000 performance rights were issued to employees and contractors of the Company, to assist with incentivisation and retention of key staff. These were valued using the share price on grant date, being \$0.01 per share and expensed over the relevant service condition. The expensed recognized on these performance rights during the year amounted to \$142,770.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 20. SHARE BASED PAYMENTS (Continued)

	Balance at the start of the year	Issued during the year	Exercised	Expired / forfeited	Balance at end of the year
<b>Performance Rights</b>	445,178,954	28,500,000	(29,250,000)	(40,000,000)	404,428,954

### Options

	Opening Balance	Issued during the year	(Lapsed) / (Converted)	Outstanding and exercisable at 31 December 2021
<b>\$0.004 expiring 28/02/2022</b>	1,300,000,000	-	(1,066,150,000)	233,850,000
<b>\$0.006 expiring 28/02/2024</b>	-	300,000,000 <sup>1</sup>	(21,000,000)	279,000,000

<sup>1</sup> Includes the following:

<sup>a</sup> 100,000,000 broker options in relation to the \$5m capital raise completed in April 2021;

<sup>b</sup> 100,000,000 advisor options to Chieftain Securities Pty Ltd; and

<sup>c</sup> 40,000,000 consultancy options issued to Shenton James Pty Ltd

<sup>d</sup> 60,000,000 incentive options issued to Directors, Matthew Worner and Douglas Jendry.

In addition to the above, during the year the Company agreed to issue Telmen Resources JSC, the operator of the Gurvantes XXXV Project, with 100,000,000 as consideration for extending the exclusivity period relating to execution of the farm-in agreement. These Options were not issued at 31 December 2021, however have been granted for accounting purposes and accordingly have been accounted for as disclosed below.

Options granted during the year were valued using a Black-Scholes valuation model, with the following inputs and assumptions:

	Broker options – Share issue costs (a)	Professional and consultancy fees (b-c)	Director options (d)	Vendor options – Exploration & evaluation assets
Valuation date	26 March 2021	26 March 2021	1 April 2021	11 July 2021
Expected volatility (%)	100%	100%	100%	100%
Risk-free interest rate (%)	0.10%	0.10%	0.11%	0.20%
Expected life of option (years)	2.93 years	2.93 years	2.91 years	3 years
Option exercise price (\$)	\$0.006	\$0.006	\$0.006	\$0.010
Share price at grant date (\$)	\$0.008	\$0.008	\$0.0075	\$0.009
Expiry date	28 Feb 24	28 Feb 24	28 Feb 24	3-yrs from issue
Value per option	\$0.0053	\$0.0053	\$0.0049	\$0.0053
Number of options	100,000,000	140,000,000	60,000,000	100,000,000
<b>Total valuation</b>	<b>530,520</b>	<b>742,728<sup>1</sup></b>	<b>292,516</b>	<b>534,715</b>

<sup>1</sup> Of the \$1,152,397 of professional and consultancy expenses referenced in the consolidated statement of profit or loss and other comprehensive income, \$742,728 related to the issue of 140,000,000 options to consultants

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 20. SHARE BASED PAYMENTS (Continued)

### 2020

During the prior year, the company granted 117,500,000 Rights in four classes (A-D) to certain Directors of the Company on 29 May 2020, after receiving shareholder approval at the Company's AGM. In addition, 327,678,954 Rights were issued to David Casey across three classes (E-G), after receiving shareholder approval at the Company's General Meeting on 8 September 2020.

The vesting conditions attached to Class A, B, F and G Rights meet the definition of a market condition, as the vesting of the Rights is dependent on the future market price of the Company's ordinary shares; and the vesting conditions attached to Class C, D and E Rights do not meet the definition of a market condition, as the vesting of the Rights is not dependent on the future market price of the Company's ordinary shares. Therefore, in determining the value of the Rights we have used:

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

Rights valuation assumptions in the table below (A-G):

Assumptions	Class A	Class B	Class C	Class D	Class E	Class F	Class G
Valuation Date	29-May-20	29-May-20	29-May-20	29-May-20	8-Sept-20	8-Sept-20	8-Sept-20
Spot Price	\$0.002	\$0.002	\$0.002	\$0.002	\$0.003	\$0.003	\$0.003
Exercise Price	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expiry Date	30-Jun-25	30-Jun-27	30-Jun-25	30-Jun-26	30-Jun-25	30-Jun-27	30-Jun-27
Barrier Price	\$0.003	\$0.00485	Nil	Nil	Nil	\$0.004	\$0.008
Vesting Date	30-Jun-21	30-Jun-21	31-Dec-21	31-Dec-22	19-Jul-22	19-Jul-22	19-Jul-22
Expected Future Volatility	100%	100%	100%	100%	100%	100%	100%
Number	38,750,000	38,750,000	20,000,000	20,000,000	163,839,476	81,919,739	81,919,739
Value per Right	\$0.00177	\$0.00179	\$0.002	\$0.002	\$0.0030	\$0.0027	\$0.0026

In September 2020, 50,000,000 unlisted options were issued to third party advisors directly in relation to the raising of \$5,000,000. These options were valued using a Hoadley ESO2 valuation model, with the following table listing the inputs used within the model for the valuation of options:

Valuation date	8 Sept 2020
Expected volatility (%)	100%
Risk-free interest rate (%)	0.25%
Expected life of option (years)	1.47 years
Option exercise price (\$)	\$0.004
Share price at grant date (\$)	\$0.003
Expiry date	28 Feb 22
Valuation of option	\$0.0011
Total value of option	\$55,000



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 20. SHARE BASED PAYMENTS (Continued)

The share price milestones attached to the various Performance Rights are summarised as follows:

- Class A Rights will vest when the volume weighted average price ("VWAP") of the Company's shares, as traded on the ASX over a 20-day trading period exceeds "Vesting Price A" at any time after the date of the AGM but prior to 30 June 2022. Vesting price A is the greater of \$0.003 and 200% of the 20-day VWAP immediately prior to the date of the AGM, being \$0.00242;
- Class B Rights will vest when the volume weighted average price ("VWAP") of the Company's shares, as traded on the ASX over a 20-day trading period exceeds "Vesting Price B" at any time after the date of the meeting but prior to 30 June 2024. Vesting price B is 400% of the 20-day VWAP immediately prior to the date of the AGM, being \$0.00485;
- Class C Rights will vest when, prior to 31 December 2021 the Company completes a successful farm-out transaction in respect of one of the Company's projects and the Company elects to move into the drilling phase in respect of the licence the subject of the farm-out. These rights lapsed during financial year 2021 as disclosed in the 2021 section of this note;
- Class D Rights will vest when the vesting condition for Class C Rights are satisfied; and prior to 31 December 2022, the Company completes a successful farm-out transaction in respect of one of the Company's projects (not being the project the subject of the satisfaction of the Vesting Condition for the Class C Rights) and the Company elects to move into the drilling phase in respect of the licence the subject of the farm-out. These rights lapsed during financial year 2021 as disclosed in the 2021 section of this note;
- Class E Rights will vest upon execution of formal agreements in respect of a farmin to EP447 containing the Walyering exploration prospect and Completion by the Company of a placement of ordinary shares to raise an amount of not less than A\$3 million at \$0.002 per share. 163,839,476 Class E rights were cancelled during financial year 2021 as disclosed in the 2021 section of this note;
- Class F Rights will vest upon the 20-day volume Weighted average price of the Company's Shares exceeds vesting price A at any time after the date of the shareholder meeting (Meeting) to approve the issue of Performance Rights but prior to 30 June 2022. Vesting Price A is 200% of the Raising Price (i.e. \$0.004 per share). 1,919,739 Class F rights were cancelled during financial year 2021 as disclosed in the 2021 section of this note; and
- Class G Rights will vest upon the 20-day volume Weighted average price of the Company's Shares exceeds Vesting Price B at any time after the date of the shareholder meeting (Meeting) to approve the issue of Performance Rights but prior to 30 June 2024. Vesting Price B is 400% of the Raising Price (i.e. \$0.008 per share). 1,919,739 Class G rights were cancelled during financial year 2021 as disclosed in the 2021 section of this note.

The Group has estimated expected achievement date of each class and vested the expense accordingly.

The Board resolved for the service condition to be removed from 7,500,000 Class A and Class B rights to Mr Peter Stickland upon his resignation as a Director, to which these rights then vested immediately.

## 21. FINANCIAL INSTRUMENTS

### a) Financial Risk Management

The group's financial instruments consist mainly of cash at bank, payables and receivables.

The group has not formulated any specific management objectives and policies in respect to debt financing, derivatives or hedging activity. As a result, the group has not formulated any specific management objectives and policies in respect to these types of financial instruments. Should the group change its position in the future, a considered summary of these policies will be disclosed at that time.

The Group's current exposure to the risk of changes in the market is managed by the Board of Directors.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 21. FINANCIAL INSTRUMENTS (Continued)

### a) Financial Risk Management (Continued)

#### Market risks

The Group is exposed to a variety of financial risks through its financial instruments for example, interest rate risk, liquidity risk and credit risk, as well as foreign currency risk.

#### Interest rate risk

At reporting date, the Group does not have long term borrowings and its exposure to interest rate risk is assessed as low. The risk monitors its interest rate risk through sensitivity analysis, as outlined below.

The consolidated group's exposure to interest rate risk which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets of the group are summarised in the following tables:

	Floating interest rate	1 Year or less	Over 1 to 5 years	Non-interest bearing	Remaining contractual maturities	Weighted average interest rate
31 December 2021	\$	\$	\$	\$	\$	%
<b>Financial assets</b>						0.21%
Cash and cash equivalents	6,714,830	6,714,830	-	-	6,714,830	
Other receivables	-	-	-	88,110	88,110	
	<b>6,714,830</b>	<b>6,714,830</b>	<b>-</b>	<b>88,110</b>	<b>6,802,940</b>	
<b>Financial liabilities</b>						
Other payables and sundry accruals	-	-	-	1,526,503	1,526,503	0.41%
Deferred consideration	-	688,375	-	-	688,375	
		<b>688,375</b>	<b>-</b>	<b>1,526,503</b>	<b>2,214,878</b>	
	Floating interest rate	1 Year or less	Over 1 to 5 years	Non-interest bearing	Remaining contractual maturities	Weighted average interest rate
31 December 2020	\$	\$	\$	\$	\$	%
<b>Financial assets</b>	4,657,871	4,657,871	-	-	4,657,871	0.41%
Cash and cash equivalents	-	-	1,000,000	-	1,000,000	
Other receivables	-	-	-	33,964	33,964	
	<b>4,657,871</b>	<b>4,657,871</b>	<b>1,000,000</b>	<b>33,964</b>	<b>5,691,835</b>	
<b>Financial liabilities</b>						
Other payables and sundry accruals	-	-	-	143,147	143,147	0.41%
	<b>-</b>	<b>-</b>	<b>-</b>	<b>143,147</b>	<b>143,147</b>	

At 31 December 2021, if interest rates had changed by -/+50 (2020: -/+ 50) basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been \$33,574 lower/higher (2020: \$23,289).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 21. FINANCIAL INSTRUMENTS (Continued)

### a) Financial Risk Management (Continued)

#### Foreign currency risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD (\$), GBP (£).

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using cash flow forecasting.

The consolidated entity has not entered into any derivative financial instruments to hedge such transactions and anticipated future receipts or payments that are denominated in a foreign currency. The board manages the purchase of foreign currency to meet operational requirements.

The consolidated entity's exposure to foreign currency risk at the reporting date was as follows:

	2021	2020
	\$	\$
<b>Trade payables in denomination currency</b>		
Trade payables – USD (USD\$)	(10)	3,325
Trade payables – GBP (GBP£)	22,345	42,021
<b>Deferred Consideration in denomination currency</b>		
Deferred consideration – USD (USD\$)	688,375	-
<b>Cash and cash equivalents held in denomination currency</b>		
Cash and cash equivalents – (USD\$)	148,929	17,966
Cash and cash equivalents – (GBP£)	8,527	-
<b>Consolidated entity sensitivity</b>		
Exchange rates per AUD as at 31 December		
GBP (£)	0.5378	0.5646
USD (\$)	0.7256	0.7707

A 10% increase or decrease in value of Australia dollar against the above currencies at 31 December would have an immaterial effect.

#### 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 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 forecast cash flows on regular basis to manage its liquidity risk.

#### Credit risk

Management has assessed the credit risk exposure as minimal at reporting date. Credit risk arises from exposure to customers and deposits with banks. Management monitors its exposure to ensure recovery and repayment of outstanding amounts. Cash deposits are only made with reputable banking institutions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 22. FAIR VALUE MEASUREMENT

Some of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. Significant valuation issues are reported to the Board of Directors.

When measuring the fair value of an asset or liability, the Group uses market observable data to the extent possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

	Level 1	Level 2	Level 3	Total
31 December 2021	\$	\$	\$	\$
<b>Financial liabilities</b>				
Deferred consideration	-	-	688,375	<b>688,375</b>
	-	-	<b>688,375</b>	<b>688,375</b>

### a) Valuation techniques used to derive Level 3 fair values

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. These valuation techniques maximise the use of observable market data where available and rely as little as possible on entity specific estimates.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. A significant unobservable input to the valuation of the Group's deferred consideration was information relating to the anticipated size of the 2C contingent resource association with the Group's farm-in interest in the Gervantes XXXV project. Under the terms of the farm-in agreement, Talon is to pay pro-rata deferred consideration of up to US\$1,000,000 upon completion of a 2C Contingent Resource amounting to 1.5 Tcf. There will be no amount payable if the 2C Contingent Resource was below 0.5Tcf.

A 10% increase or decrease in the value of consideration payable would have a corresponding fair value movement on the carrying value of the financial liability and exploration and evaluation assets. It is anticipated that this liability will become due and payable during Q3 of 2022.

### b) Fair value measurement of financial instruments

Due to their short-term nature, the carrying amounts of the current trade and other receivables and current trade and other payables is assumed to equal their fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 23. CONSOLIDATED ENTITIES

	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST %	OWNERSHIP INTEREST %
Parent entity		2021	2020
Talon Energy Limited	Australia		
<b>Subsidiaries</b>			
Texon I Pty Ltd	Australia	100	100
Rubox Pty Ltd	Australia	100	100
Talon (Aust) Pty Ltd	Australia	100	100
Talon Energy Pte Ltd <sup>1</sup>	Singapore	100	-
Talon Energy Mongolia LLC <sup>1</sup>	Mongolia	100	-
Texoz E&P Holdings I, Inc.	USA	100	100
Texoz E&P Holdings III, Inc.	USA	100	100
Texoz E&P I, Inc.	USA	100	100
Texoz E&P III, Inc.	USA	100	100
Talon Petroleum (UK) Ltd	UK	100	100
EnCounter Oil Ltd	UK	100	100

<sup>1</sup> Entity incorporated during the year

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

## 24. SEGMENT REPORTING

The Group identifies operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to the segments and to assess their performance.

The Group has reassessed its presentation of operating segments during the year and determined that the Group's operations comprise two segments (2020: one segment), being the exploration and evaluation of oil and gas assets in Perth Basin, Australia and South Gobi Basin, Mongolia. The Group's administrative and corporate activities in Australia do not constitute an operating segment. The results of the segment are the same as those of the Group.

*Geographical information*

	GEOGRAPHICAL NON-CURRENT ASSETS	
	2021	2020
Perth Basin, Australia	6,629,772	-
South Gobi Basin, Mongolia	2,318,347	-

The geographical non-current assets above are exclusive of, where applicable, financial instruments, deferred tax assets, post-employment benefits assets and rights under insurance contracts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 25. COMMITMENTS AND CONTINGENCIES

The company had the following commitments at 31 December 2021:

- An agreement was executed with Macallum Group Limited during the period, which allows for the acquisition of the Condor Project, being EP494 and SPA-0081 (Mucnea Blocks). Talon has until 17 March 2022 to exercise its option in acquiring a 100% interest in the project, for an additional consideration of \$350,000 worth of Talon Shares and an overriding royalty of 1.95% on all hydrocarbon product sales.
- In relation to the Gurrantes XXXV Project, Talon has an obligation to fund 100% of the initial drilling campaign (minimum 4 wells) estimated at US\$1.5m, at which point it can terminate the agreement or continue to the next phase of exploration. This phase of exploration is currently underway. If Talon continues with the program, it must fund 100% of all costs up to an amount of US\$4.65m.
- In accordance with the Joint Operating Agreement between Talon and Strike Energy (Strike), Talon Energy, through its wholly owned subsidiary, Talon (Aust) Pty Ltd are committed to exploration and evaluation costs incurred in line with its' 45% interest in the Walyering Project.

### Indemnities

Indemnities have been provided to directors and officers of the Company to the extent permitted by law against all liabilities incurred in their capacity as officers of the Company and its controlled entities and all reasonable legal costs incurred by any of them in the defence of an action for a liability incurred by that officer. No monetary limit applies to these agreements and there are no known obligations outstanding at 31 December 2021 (2020: \$nil).

### Guarantees

The Group has provided guarantees and deposits of \$nil (2020: \$64,872) in relation to exploration activities in Texas, USA. The Group is in the process of closing its US subsidiaries.

### Litigation

The Group has no outstanding litigation as at 31 December 2021 (2020: \$nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 26. SUBSEQUENT EVENTS

On 1 January 2022, David Casey transitioned from the role of Managing Director & CEO to Non-Executive Director. As part of his transition to the role of Non-Executive Director, the Company and Mr Casey have agreed to restructure his equity-based incentive remuneration. Accordingly, Mr Casey will retain an amount of 160,000,000 Performance Rights (reduced from 327,678,954) and will, subject to the receipt of the required shareholder approval, be issued 40,000,000 options to acquire Talon shares on the terms below. Mr Casey will also receive Non-Executive Director fees in an amount of \$40,000 per annum.

Summary of proposed Option Terms:

- Number of options: 40,000,000
- Exercise Price: \$0.01 each
- Expiry date: 2 years from the date of issue.

On 11 February 2022, Talon advised that as a result of an internal review of its operations, a decision was made to undertake an exit of its portfolio of UK North Sea exploration assets in order to focus on its more advanced stage projects.

The company has commenced the relinquishment process for the licenses currently in its portfolio, however, remains in discussions regarding the possible divestment to a third-party licence P2727, which contains the White Bear project. It is anticipated the process of exiting its UK portfolio will be complete in the coming few months.

On 23 February 2022, Steve Jenkins resigned from his position as Non-Executive Director.

On 8 March 2022 the Company appointed Mr Colby Hauser as Managing Director and CEO of the Company. Mr Hauser brings to Talon a broad range of experience in senior corporate, commercial, and business development roles in the Energy Sector, and most recently held the position of General Manager, Commercial at Strike Energy Limited (Strike). Strike is the operator of EP447, which contains the highly prospective Walyering gas project.

In his roles in the Energy Sector, Mr Hauser has developed a specialised skill set including corporate strategy, gas sales and marketing, joint venture representation, project development, as well as investor and government/stakeholder relations. Mr Hauser has significant long-term experience in the Perth Basin and is well known in the Perth energy community where he was formerly the President and is now a Life Member of the Energy Club of WA (formerly Petroleum Club of WA).

As part of the appointment, Mr Hauser will receive a salary of \$300,000 plus superannuation and 175,000,000 Performance Rights with various vesting conditions attached.



# DIRECTORS' DECLARATION

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

- (a) the consolidate financial statements and notes set out on pages 29 to 58 and the remuneration report on pages 17 to 24 of the director's report as set out on pages 12 to 25, are in accordance with the *Corporations Act 2001* (Cth), including:
  - (i) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth);
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a);
- (c) Subject to matters set out in note 2, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* (Cth) for the financial year ended 31 December 2021.

Signed in accordance with a resolution of the Directors.



**Colby Hauser**

Managing Director and CEO

Dated 29 March 2022

# INDEPENDENT AUDITOR'S REPORT



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## INDEPENDENT AUDITOR'S REPORT

To the members of Talon Energy Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Talon Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying 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 2021 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

#### Material uncertainty related to going concern

We draw attention to Note 2 d) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

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# INDEPENDENT AUDITOR'S REPORT (Continued)



## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### Accounting for Exploration and Evaluation Assets

Key audit matter	How the matter was addressed in our audit
<p>At 31 December 2021, the Group held a significant carrying value of exploration and evaluation assets as disclosed in Notes 2 i), 3 and 9.</p> <p>As the carrying value of the exploration and evaluation represents a significant asset of the Group, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount.</p> <p>Judgement is applied in determining the treatment of exploration expenditure in accordance with Australian Accounting Standard AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i>. In particular:</p> <ul style="list-style-type: none"> <li>• Whether the conditions for capitalisation are satisfied;</li> <li>• Which elements of exploration and evaluation expenditures qualify for recognition;</li> <li>• Recognition and valuation of purchase consideration for tenement acquisitions; and</li> <li>• Whether facts and circumstances indicate that the exploration and expenditure assets should be tested for impairment.</li> </ul>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining a schedule of the areas of interest held by the Group and assessing whether the rights to tenure of those areas of interest remained current at balance date;</li> <li>• Considering the status of the ongoing exploration programmes in the respective areas of interest by holding discussions with management, and reviewing the Group's exploration budgets, ASX announcements and director's minutes;</li> <li>• Considering whether any such areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed;</li> <li>• Verifying, on a sample basis, evaluation expenditure capitalised during the year for compliance with the recognition and measurement criteria of AASB 6;</li> <li>• Considering whether any facts or circumstances existed to suggest impairment testing was required;</li> <li>• Reviewing the basis of impairment recorded by management and the methodology used to determine the fair value for compliance with the relevant accounting standards; and</li> <li>• We also assessed the adequacy of the related disclosures in Notes 2 i), 3 and 9 to the financial report.</li> </ul>

# INDEPENDENT AUDITOR'S REPORT (Continued)



## Accounting for Share-Based Payments

Key audit matter	How the matter was addressed in our audit
<p>During the financial year ended 31 December 2021, the Group issued options, shares and performance rights to key management personnel and other stakeholders.</p> <p>Refer to Note 2 s) of the financial report for a description of the accounting policy, Note 3 for the significant estimates and judgements applied to these arrangements and Note 20 of the financial report for disclosure of the arrangements.</p> <p>Share-based payments are a complex accounting area and due to the complex and judgemental estimates used in determining the fair value of the share-based payments in accordance with AASB 2 <i>Share Based Payment</i>, we consider the Group's calculation of the share-based payments expense to be a key audit matter.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"><li>• Reviewing market announcements and board minutes to identify that all new share-based payments granted during the year have been accounted for;</li><li>• Reviewing the relevant supporting documentation to obtain an understanding of the contractual nature and terms and conditions of the share-based payments arrangements;</li><li>• Evaluating management's methodology for calculating the fair value of the share-based payments, including assessing the valuation inputs using internal specialists where required;</li><li>• Recalculating estimated fair value of the share based payments using relevant valuation methodologies;</li><li>• Assessing the allocation of the share-based payment expense over management's expected vesting period;</li><li>• Assessing management's determination of achieving milestones; and</li><li>• Assessing the adequacy of the related disclosures in Notes 2 s), 3 and 20 of the financial report.</li></ul>

# INDEPENDENT AUDITOR'S REPORT (Continued)



## **Other information**

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2021, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## **Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

[https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf)

This description forms part of our auditor's report.

## INDEPENDENT AUDITOR'S REPORT (Continued)



### Report on the Remuneration Report

#### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 24 of the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of Talon Energy Limited, for the year ended 31 December 2021, complies with section 300A of the *Corporations Act 2001*.

#### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO Audit (WA) Pty Ltd**

A handwritten signature in dark ink, appearing to read 'Dean Just', is written over a faint, light blue BDO logo.

**Dean Just**  
**Director**

Perth, 29 March 2022

# SHAREHOLDER INFORMATION

Talon Energy Ltd shares are listed on the Australian Securities Exchange. The Company's ASX code is TPD for Ordinary Shares.

## SUBSTANTIAL SHAREHOLDERS (HOLDING NOT LESS THAN 5%)

As at 16 March 2022, there were no shareholders holding greater than a 5% interest in the Company.

## CLASS OF SHARES AND VOTING RIGHTS

At 16 March 2022 there were 3,698 holders of 7,023,789,525 ordinary fully paid shares of the Company. The voting rights attaching to the ordinary shares are in accordance with the Company's Constitution being that:

- a. each Shareholder entitled to vote may vote in person or by proxy, attorney or Representative;
- b. on a show of hands, every person present who is a Shareholder or a proxy, attorney or Representative of a shareholder has one vote; and
- c. on a poll, every person present who is a shareholder or a proxy, attorney or Representative of a shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or Representative, have one vote for the Share, but in respect of partly paid Shares, shall, have such number of votes as bears the proportion which the paid amount (not credited) is of the total amounts paid and payable (excluding amounts credited).

The number of shareholders holding less than a marketable parcel is 473.

## UNLISTED SECURITIES AS AT 16 MARCH 2022

SECURITIES	NUMBER OF SECURITIES ON ISSUE	NUMBER OF HOLDERS	NAME OF HOLDERS HOLDING MORE THAN 20%	NUMBER HELD
Options exercisable at \$0.006 on or before 28 Feb 2024	279,000,000	13	N/A	N/A
Performance Rights	231,750,000	7	D A CASEY & ASSOCIATES PTY LIMITED <DAVID CASEY FAMILY A/C>	160,000,000

## CASH USAGE

Since the time of listing on ASX, the entity has used its cash and assets in a form readily converted to cash that it had at the time of admission to the official list of ASX in a manner which is consistent with its business objectives.



## SHAREHOLDER INFORMATION (Continued)

### TOP 20 SHAREHOLDERS AS AT 16 MARCH 2022

RANK	NAME	SHARES	% OF UNITS
1.	TREASURY SERVICES GROUP PTY LTD <NERO RESOURCE FUND A/C>	320,000,000	4.56
2.	PRECISION OPPORTUNITIES FUND LIMITED <INVESTMENT A/C>	150,000,000	2.14
3.	GREMAR HOLDINGS PTY LTD	123,000,000	1.75
4.	VIMINALE PTY LTD <DA PAGANIN FAMILY NO 2 A/C>	122,916,667	1.75
5.	WORKPOWER PTY LTD	122,916,667	1.75
6.	HOLDREY PTY LTD <DON MATHIESON FAMILY A/C>	120,000,000	1.71
7.	SUTTON NOMINEES PTY LTD <W M GATACRE FAMILY FUND A/C>	108,541,918	1.55
8.	MR MARTIN ROWNEY	92,500,000	1.32
9.	MAGAUITE PTY LTD <PETER NELSON SUPER FUND A/C>	88,000,000	1.25
10.	JEC CAPITAL PTY LTD <JEC CAPITAL A/C>	81,750,000	1.16
11.	SMC CAPITAL PTY LTD <SMC CAPITAL A/C>	80,250,000	1.14
12.	ASTUTE CONCEPTS PTY LTD	79,240,824	1.13
13.	HELMET NOMINEES PTY LTD <TIM WEIR FAMILY FUND A/C>	70,000,000	1.00
14.	HONEYBALL HOLDINGS PTY LTD <HONEYBALL HOLDINGS A/C>	70,000,000	1.00
15.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	64,360,085	0.92
16.	DORIEMUS SUPER FUND PTY LTD <DORIEMUS SUPER FUND A/C>	60,000,000	0.85
17.	MR THOMAS FRITZ ENSMANN	60,000,000	0.85
18.	MR GAVIN MICHAEL JAMES	55,000,000	0.78
19.	ZERRIN INVESTMENTS PTY LTD	52,777,454	0.75
20.	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	51,341,666	0.73
TOTAL		1,992,712,371	28.08

### RANGE OF ORDINARY SHARES AS AT 16 MARCH 2022

RANGE	TOTAL HOLDERS	UNITS	%
1 - 1,000	75	12,289	0.00
1,001 - 5,000	27	75,844	0.00
5,001 - 10,000	21	164,527	0.00
10,001 - 100,000	939	66,107,106	0.94
> 100,001	2,636	6,957,429,759	99.06
Total	1,671	5,514,352,025	100.00

# GLOSSARY

<b>1P</b>	proved (developed plus undeveloped) reserves in accordance with SPE-PRMS
<b>2P</b>	proved plus probable reserves in accordance with the SPE-PRMS
<b>3P</b>	proved, probable and possible reserves in accordance with SPE-PRMS
<b>A\$</b>	Australian dollars, unless otherwise stated
<b>AASB</b>	Australian Accounting Standards Board or, if the context requires, an Australian Accounting Standard adopted by it
<b>AGM</b>	Annual General Meeting
<b>ASIC</b>	Australian Securities and Investments Commission
<b>ASX</b>	ASX Limited (ACN 008 624 691) or, if the context requires, the securities market operated by it
<b>bbl</b>	barrels
<b>bcf</b>	billion cubic feet
<b>bcfe</b>	billion cubic feet equivalent
<b>boe</b>	barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 barrel of oil equivalent)
<b>bopd</b>	barrels of oil per day
<b>bwpd</b>	barrels of water per day
<b>CEO</b>	Chief Executive Officer
<b>Company or Talon</b>	Talon Energy Limited (ABN 88 153 229 086)
<b>Constitution</b>	constitution of the Company
<b>Corporations Act</b>	<i>Corporations Act 2001</i> (Cth)
<b>Director</b>	director of the Company
<b>ft</b>	feet
<b>Group</b>	Talon and its subsidiaries
<b>IFRS</b>	International Financial Reporting Standards
<b>KMP</b>	any or all (as the context requires) of the key management personnel, as defined in paragraph 9 of AASB 124 <i>Related Party Disclosures</i> dated December 2009
<b>LTI</b>	long term incentive
<b>m</b>	metres
<b>mbbl</b>	thousand barrels
<b>mboe</b>	thousand barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 boe)
<b>mcf</b>	thousand cubic feet
<b>mcfd</b>	thousand cubic feet per day
<b>mcfgpd</b>	thousand cubic feet of gas per day
<b>mmbo</b>	million barrels of oil
<b>mmboe</b>	million barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6 mcf to 1 boe)
<b>mmcf</b>	million cubic feet
<b>NGL</b>	natural gas liquids
<b>NRI</b>	net revenue interest or share of production after all burdens such as royalties have been deducted from the WI
<b>ORRI</b>	overriding royalty interest, which is a percentage share of production free from all costs of drilling and producing

## GLOSSARY (Continued)

<b>Q</b>	year quarter
<b>Share</b>	fully paid ordinary share in the capital of the Company
<b>SPE-PRMS</b>	Petroleum Resources Management System 2007, published by the Society of Petroleum Engineers
<b>STI</b>	short term incentive
<b>Texon</b>	Texon Petroleum Ltd (ABN 24 119 737 772)
<b>Texoz</b>	Texoz E&P II, Inc.
<b>TVD</b>	True Vertical Depth
<b>US\$</b>	U.S. dollars
<b>VWAP</b>	volume weighted average price
<b>WI</b>	working interest, a cost bearing interest of an oil and gas project





**[talonenergy.com.au](http://talonenergy.com.au)**

ABN 88 153 229 086