

## Quarterly Report for the quarter ending 30 September 2018

### 1. Operations

#### Texas

##### Fairway Project – Howard & Glasscock Counties (Target 35% - 60% WI)

- Divestment Program**

A divestment of the Fairway asset has been proposed to shareholders as part of Target Energy’s recapitalisation program (refer Section 5).

Target Energy’s Convertible Noteholders approved the divestment at a meeting held on 28 September, 2018.

- Drilling/Workover Program**

No activity.

- Leasing**

The company notes that all undeveloped leases in the “Section 4” tract have lapsed (refer Section 4).

### 2. Production (1 July – 30 September)

Project	TEX WI	Gross Gas Prodn in Period (mmcf)	Cumulative Gross Gas Prodn (mmcf)	Net Gas Prodn in Period (mmcf)	Cumulative Net Gas Prodn (mmcf)	Gross Oil Prodn in period (BO)	Cumulative Gross Oil Prodn (BO)	Net Oil Prodn in Period (BO)	Cumulative Net Oil Prodn (BO)
Fairway	33%-60%	24.6	583.4	12.3	314.85	8,794	276,548	4,156	146,206
<b>Total</b>		<b>24.6</b>	<b>583.4</b>	<b>12.3</b>	<b>314.85</b>	<b>8,794</b>	<b>276,548</b>	<b>4,156</b>	<b>146,206</b>

Net Production is scaled to Target’s Working Interest, before royalties; mmcf = million cubic feet; mmcf/d = million cubic feet of gas per day; BO = barrels of oil, BOPD = barrels of oil per day, BOEPD = barrels of oil equivalent per day (Target reports a thermal equivalent when combining gas and oil production, where 1BOE = 6 mcf).

## Quarterly Report for the quarter ending 30 September 2018

### 3. Lease Holdings

Target Energy Leaseholdings	Lease Name	County / Ph	Description	Depth Limits	TEX WI	Gross acres	Net acres
Fairway	BOA	Howard	S12 S/2 , Block 33 T-2S, A-1353, T&P RR Survey	None	50.00%	320.0	160.0
	BOA North #4	Howard	S12 N/2 , Block 33 T-2S, A-1353, T&P RR Survey	None	50.00%	160.0	80.0
	BOA North #5	Howard	S12 N/2 , Block 33 T-2S, A-1353, T&P RR Survey	None	55.56%	160.0	88.9
	Darwin N/2	Howard	S44 N/2, Block 33, T-1S, A-1292, T&P RR Survey	None	50.00%	320.0	160.0
	Darwin SW/4	Howard	S44 SE/4, Block 33, T-1S, A-1292, T&P RR Survey	None	60.00%	160.0	96.0
	Ballarat	Glasscock	S 184 and 185, Bl 28, A-815 and A-A483, W&NW Survey	None	55.56%	160.0	88.9
	Taree	Glasscock	W/2 S193, Bl 28, A-815 and A-A483, W&NW Survey	None	60.00%	160.0	96.0
	Sydney #1	Glasscock	NW/4 S 188 Block 29 A-170 W&NW Survey	None	43.13%	160.0	69.0
	Sydney #2	Glasscock	E/2 S 188 Block 29 A-170 W&NW Survey	None	33.75%	160.0	54.0
	Wagga Wagga #1	Glasscock	NE/4 S221, Block 29, A-496; W&NW RR Co Survey	None	35.00%	160.0	56.0
	Wagga Wagga #2	Glasscock	SE/4 S221, Block 29, A-496; W&NW RR Co Survey	None	38.89%	160.0	62.2
	Ballarat West	Glasscock	part NW/4 of S185, Bl 29, W&NW RR Co. Survey	None	50.00%	123.9	62.0
<b>Total</b>						<b>2203.9</b>	<b>1072.9</b>

### 4. Lease Holdings Divested

Target Energy Divested Leaseholdings	Lease Name	County / Ph	Description	Depth Limits	TEX WI	Gross acres	Net acres
Fairway	"Section 4"	Howard	S4, Block 32, T-2-S, A-1354 T & P RR Co Survey	None	60.00%	440.0	264.0
<b>Total</b>						<b>440.0</b>	<b>264.0</b>

## 5. Corporate

### 5.1. Recapitalisation

On 27 September the Company announced that it had entered into a binding agreement ("Agreement") to restructure and recapitalise the Company. Under the Agreement, Target has agreed to sell 100% of its interests in the Fairway Project to Fairway Energy Limited ("Fairway Energy", "FEL") and to recapitalise all other secured debt. An independent expert has assessed the proposed transaction as "Fair and Reasonable". Details of the program are shown below.

The Agreement is subject to shareholder, Convertible Noteholder and regulatory approvals, including approval under Listing Rule 11.2.

- On 28 September 2018, a meeting of Convertible Noteholders approved the Agreement.
- A general meeting has been called for 5 November to secure shareholder approval of the Agreement. A Notice of Meeting has been circulated to shareholders.

# Quarterly Report for the quarter ending 30 September 2018

## Summary

- Divestment of the Fairway Project to Fairway Energy Ltd in exchange for extinguishing:
  - 90% of the face value of the existing Convertible Noteholder debt, equating to approximately \$8.07M
  - 100% of the Accrued Interest on the Convertible Noteholder debt, equating to approximately \$1.68M
- Conversion of remaining Convertible Noteholder debt (10%), existing Secured Loans (100%) and 25% of outstanding Director's fees, totalling approximately \$3.77M, into Target shares at \$0.001 per share (pre-consolidation basis)
- Current litigation asset in relation to the Fairway Project to remain with Target

## Additional Information

- Company plans to undertake a 40:1 consolidation
- The Agreement is subject to shareholder, Convertible Noteholder and regulatory approvals, including approval under Listing Rule 11.2
- Following completion, the Company will undertake a capital raising of approximately \$0.5M at an issue price of \$0.001 per share (pre-consolidation basis) ("Capital Raising")
- The Company confirms that it is currently in compliance with Listing Rule 3.1 obligations.

## TRANSACTION OVERVIEW

Upon the terms and subject to the conditions in the Agreement, Target, Fairway Energy, InvestMet Limited and the Company's secured lenders have agreed to complete the following arrangements (together, the "Transactions") on the basis that all Transactions are completed contemporaneously:

### *Disposal of Fairway Project and Debt Restructure*

The proposed Transactions are described below and remain subject to relevant shareholder, noteholder and regulatory approvals. Table 1 describes Target's current Convertible Notes, Secured Loans and outstanding Directors fees.

Current Debt	A\$
1st Tranche Secured Loans	\$2.65M
1st Tranche Convertible Notes	\$5.97M
2nd Tranche Convertible Notes	\$3.00M
3rd Tranche Directors Secured Loans	\$0.15M
Outstanding Directors Fees	\$0.32M
Accrued Interest	\$1.95M
<b>Total</b>	<b>\$14.03M</b>

**Table 1**

## Quarterly Report for the quarter ending 30 September 2018

1. Target proposes to sell its interests in the Fairway Project to FEL - a public unlisted company to be owned by the Convertible Noteholders and holders owed accrued interest under their debts - in exchange for 90% of the face value of the existing Convertible Noteholder debt being extinguished and 100% of the Accrued Interest being extinguished.
  - (a) Shares in FEL to be issued, pro-rata, to existing Convertible Noteholders and holders of Accrued Interest. Specifically:
    - (i) FEL Shares to be issued to existing 1st Tranche Convertible Noteholders and holders of Accrued Interest;
    - (ii) FEL Class B Shares to be issued to the existing 2nd Tranche Convertible Noteholder;
  - (b) The FEL shares and FEL Class B shares will rank equally in all aspects other than in any cash distribution following a sale of the properties, where the revenue distribution will pay FEL shares first, pro-rata and to the value of the initial allocation plus any capital raising. Surplus revenue will then be paid to FEL Class B shares to the value of the initial allocation. Any surplus or further revenue will then be distributed to all classes, pro-rata.
  - (c) Fairway Energy to be independently funded by the Convertible Noteholders or a third party.
2. Existing 1st Tranche Secured Loans and 3<sup>rd</sup> Tranche Director's Secured Loans to be converted at 100% of face value to Target shares at \$0.001 per share (pre-consolidation basis).
3. Outstanding Directors Fees to be converted at 25% of face value to Target shares at \$0.001 per share (pre-consolidation basis), with the balance owing to be paid by Target from the proceeds of the Fairway project litigation (if any).
4. Convertible Noteholders will be issued Target shares, for the balance of the face value of their Convertible Notes (ie 10%) at \$0.001 per share (pre-consolidation basis). Please note that ASX has advised that it will consider the application of the escrow provisions to these Target shares in due course.
5. Existing legal action by Target in regards to the Fairway Project (and any resulting settlement) to be retained for the benefit of Target.
6. All proceeds from the sale of Fairway to be retained by Fairway Energy.
7. Target will undertake a share consolidation on a ratio of 40:1 basis.
8. Target to undertake the Capital Raising to raise a minimum of \$0.5M (subject to shareholder approval). Funds will be used primarily to cover ongoing costs of Target including administrative expenses and costs of advisers and personnel and other costs in identifying and progressing a new transaction to assist the Company to be reinstated to trading on ASX.
9. Following the restructure and recapitalisation, the Company will focus on acquiring value-accretive assets and obtaining re-quotation of the Company's securities on ASX.

## **Quarterly Report** for the quarter ending 30 September 2018

FEL is an unlisted public company that was incorporated in November 2017 and is an unrelated party to Target. Its board of directors includes Wayne McGrath and Chris Rowe who are of the view that they have the relevant experience to manage the Fairway Project.

### ***Funding of Target***

Since 10 July 2017, InvestMet has continued to fund Target, with approximately \$2.35M provided to date in accordance with existing loan documentation dated 11 May 2017.

Included in the funding after 26 October 2017 was a component directed to the ongoing Fairway Project (approx \$360,000). FEL will acknowledge and record Target as a first priority creditor for 75% of all the amount contributed to Target by InvestMet for Fairway, as well as 75% of all annual leave and long service leave benefits payable to the current managing director of Target, with the total amount to be repaid from operating cashflows or sale proceeds from the Fairway Project.

### ***Conditions of the Transactions.***

The Agreement and the Transactions contemplated by it and each party's obligation to give legal effect to them are subject to the satisfaction or waiver of the following conditions precedent:

- (i) Target obtaining all shareholder approvals (including approval under Listing Rule 11.2) that are necessary to give effect to the Transaction and to allow Target to complete the matters set out in the Agreement;
- (ii) Fairway Energy obtaining all shareholder approvals that are necessary to give effect to the Transaction and to allow Fairway to complete the matters set out in the Agreement;
- (iii) the receipt of all approvals from the 1st Tranche Convertible Noteholders that are necessary to give effect to the Transaction and to allow the Completion of the matters set out in the Agreement (the requisite approvals were obtained at a meeting of the 1<sup>st</sup> Tranche Convertible Noteholders held on 28 September 2018); and
- (iv) receipt of all necessary governmental, regulatory and other third-party consents and approvals to affect the Transactions

Each Party must use its best endeavours to satisfy each of the Conditions as soon as practicable after the Execution Date. If any of the conditions are not satisfied on or before 31 December 2018 (or such later date that the parties agree in writing), the Agreement will be at an end and the parties will be released from their obligations under the Agreement.

As per above, in order to complete the Transactions, Target needs to obtain all relevant shareholder approvals. Accordingly, a notice of a general meeting to be held on 5 November 2018 has been distributed to shareholders. For further details regarding the Transactions and specific shareholder approvals required please refer to the notice of meeting.

## Quarterly Report for the quarter ending 30 September 2018

### ANTICIPATED TIMELINE

Event	Indicative Date for Satisfaction*
Execution of Agreement	26 September 2018
Target obtaining noteholder approvals	28 September 2018
Target obtaining Shareholder approvals	05 November 2018
Target obtaining all necessary regulatory & third-party consents.	Late November 2018
Completion of Fairway divestment and debt conversion	Late November 2018
Completion of Capital Raising.	Late December 2018

\* The above dates are indicative only and may change without notice.

The Company's securities will remain suspended from ASX until the Company acquires a new undertaking and, if required, re-complies with the requirements of Chapters 1 and 2 of the ASX Listing Rules.

### EFFECT ON THE COMPANY

Set out below is a summary of the approximate impact that the Transactions will have on the issued capital of Target. The indicative capital structure assumes the transaction proceeds on the basis of a 40:1 consolidation and the Capital Raising of \$0.5M at an issue price per share of \$0.04 (post consolidation basis).

### CURRENT AND INDICATIVE CAPITAL STRUCTURE

Current Capital Structure and Major Shareholders	Pre-Consolidation Shares	Percentage
Wyllie Group Pty Ltd	121,468,838	9.4%
Little Breton Nominees Pty Ltd	78,409,274	6.1%
Gunz Pty Limited	79,596,062	6.2%
InvestMet and Associates	140,992,898	10.9%
Existing Target Shareholders	868,539,356	67.4%
<b>Total</b>	<b>1,289,006,428</b>	<b>100.0%</b>

Indicative Capital Structure Post Transactions and Post Consolidation (undiluted)	Post-Consolidation Shares	Percentage
Wyllie Group Pty Ltd (inc 1st Tranche Secured Loan & 2nd Tranche Convertible Notes)	18,036,721	13.0%
Little Breton Nominees Pty Ltd	1,960,232	1.4%
Gunz Pty Limited	1,989,902	1.4%
InvestMet and Associates (inc. 1st Tranche Debt)	62,176,679	44.7%
1st Tranche Secured Loans - Directors portion	2,625,000	1.9%
1st Tranche Convertible Notes (exc Wyllie)	12,427,750	8.9%
3rd Tranche Secured Loans	3,625,000	2.6%
Outstanding Directors Fees	1,991,952	1.4%
Capital Raising	12,500,000	9.0%
Existing Target Shareholders	21,713,484	15.6%
<b>Total</b>	<b>139,046,720</b>	<b>100.0%</b>

## Quarterly Report for the quarter ending 30 September 2018

### Financial Impact

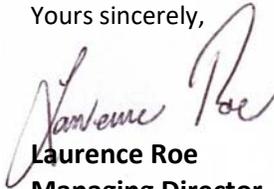
There will be a material effect on the Company's financial position including total assets, liabilities and total equity interests. Information about the likely effects of the transaction on the Company's total assets, liabilities and total equity interests (including a pro forma balance sheet) has been provided separately to shareholders.

### 5.2. Legal

In July 2017, Target's wholly owned subsidiary TELA Garwood LP ("TELA Garwood") commenced legal action in Harris County Texas against Trilogy and one of its former officers and directors. The suit alleges Breach of Contract, Fraud and Violations of the Texas Deceptive Trade Practices–Consumer Protection Act, arising from assertions made by Trilogy to TELA Garwood in regard to the status of certain leaseholdings in the Fairway Project that TELA Garwood alleges were false, causing material damage to TELA Garwood as a consequence. The action is ongoing.

For further information, the company can be contacted at [Texadmin@targetenergyusa.com](mailto:Texadmin@targetenergyusa.com).

Yours sincerely,



**Laurence Roe**  
**Managing Director**

*NOTE: In accordance with ASX Listing Rules, any hydrocarbon reserves and/or drilling update information contained in this report is based on and fairly represents information and supporting documentation prepared by or under the supervision of Mr Laurence Roe, B Sc, Managing Director and an employee of Target Energy Limited, who is a member of the Society of Exploration Geophysicists and has over 30 years experience in the sector. He consents to the reporting of that information in the form and context in which it appears.*

## Appendix 5B

# Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

**Name of entity**

Target Energy Limited

**ABN**

73 119 160 360

**Quarter ended ("current quarter")**

30 September 2018

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	-	-
(b) development	-	-
(c) production	(10)	(10)
(d) staff costs	-	-
(e) administration and corporate costs	(96)	(96)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(106)</b>	<b>(106)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-

## Mining exploration entity and oil and gas exploration entity quarterly report

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
	(d) other non-current assets	-	-
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>-</b>	<b>-</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	100	100
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>100</b>	<b>100</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	8	8
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(106)	(106)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	100	100

## Mining exploration entity and oil and gas exploration entity quarterly report

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>2</b>	<b>2</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	2	8
5.2	Call deposits		
5.3	Bank overdrafts	-	-
5.4	Other (provide details)		
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>2</b>	<b>8</b>

<b>6.</b>	<b>Payments to directors of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to these parties included in item 1.2	25
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	Nil
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

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<b>7.</b>	<b>Payments to related entities of the entity and their associates</b>	<b>Current quarter \$A'000</b>
7.1	Aggregate amount of payments to these parties included in item 1.2	Nil
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	Nil
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

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## Mining exploration entity and oil and gas exploration entity quarterly report

<b>8. Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1 Loan facilities	3,118	3,118
8.2 Credit standby arrangements		
8.3 Other (please specify)	8,971	8,971
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

Loan from Petroe Exploration Services Pty Limited <Haaleroe Trust>, \$35,000, 10%pa, 31 December 2018, Equal third ranking security\* Amount drawn at quarter end \$35,000. Interest is currently being deferred.

Loan from Little Breton Nominees Pty Limited <CKG Rowe Family Trust A/c>, \$60,000, 10%pa, 31 December 2018, Equal third ranking security\* Amount drawn at quarter end \$60,000. Interest is currently being deferred.

Loan from Gunz Pty Limited <Gunz Superannuation Fund A/C>, \$50,000, 10%pa, 31 December 2018, Equal third ranking security\* Amount drawn at quarter end \$50,000. Interest is currently being deferred.

Loan from Little Breton Nominees Pty Limited <Little Breton Superannuation Fund>, \$70,000, 10%pa, 31 December 2018, Equal first ranking security\* Amount drawn at quarter end \$70,000. Interest is currently being deferred.

Loan from Spring Eagles Farm Inc, \$10,000, 10%pa, 31 December 2018, Equal first ranking security\* Amount drawn at quarter end \$10,000. Interest is currently being deferred.

Loan from Wyllie Group Pty Limited, \$200,000, 10%pa, 31 December 2018, Equal first ranking security\* Amount drawn at quarter end \$200,000. Interest is currently being deferred.

Loan from Gunz Pty Limited <Gunz Superannuation Fund A/C>, \$25,000, 10%pa, 31 December 2018, Equal first ranking security\* Amount drawn at quarter end \$25,000. Interest is currently being deferred.

Convertible Notes, Series 1, Various noteholders, \$5,971,000, 10%pa, 31 December 2018, second ranking security\* Interest was being deferred to 31 December 2018 and nil interest rate applies for period to repayment date.

Convertible Notes, Series 2, Wyllie Group Pty Limited, \$3,000,000, 10%pa, 31 December 2018, Equal third ranking security\* Interest was being deferred to 31 December 2018 and nil interest rate applies for period to repayment date.

Loan, Investmet Limited, \$2,000,000, 10% pa, 31 December 2018, Equal first ranking security\*. Amount drawn down at quarter end \$2,668,000. Balance of facility is available at Investmet's discretion.

Additional funding will be required to finance the Company's operations whilst a sale of the Fairway asset is secured and completed.

\* Security is over the Company's interest in the Fairway Project.

<b>9. Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1 Exploration and evaluation	-
9.2 Development	-
9.3 Production	-
9.4 Staff costs	182
9.5 Administration and corporate costs	489
9.6 Other (provide details if material)	-
<b>9.7 Total estimated cash outflows</b>	<b>671</b>

## Mining exploration entity and oil and gas exploration entity quarterly report

10.	Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced		Nil		
10.2	Interests in mining tenements and petroleum tenements acquired or increased		Nil		

**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:

(Director/Company secretary)

Date: 23 October 2018

Print name: Laurence Roe

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.