

Quarterly Report for the quarter ending 30 June 2016

- Target Net Proven Fairway Reserves increased to 2.9 MMBOE
- 2016 Reserves Update increases Target Reserves by over 600%
- Divestment Process Continues At Fairway

1. Operations

Texas

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

- Reserves Update

An independent 2016 reserves update for the Fairway assets has been completed. The update indicates that, as of 30 June 2016, Target's net proven reserves at Fairway totalled approximately 2.9 million barrels of oil equivalent (Table 1).

Category	Fairway TEX Net Reserves		BOE
	Oil (bbls)	Gas (Mscf)	(BOe)
Proved Developed Producing (PDP)	36,200	57,300	45,750
Proved Developed Not Producing (PDNP)	298,000	1,772,500	593,417
Proved Undeveloped (PUD)	1,907,800	1,928,600	2,229,233
Total Proved Reserves (1P)	2,242,000	3,758,400	2,868,400
Probable	0	0	0
Total Proved & Probable Reserves (2P)	2,242,000	3,758,400	2,868,400
Possible	0	0	0
Total Proved, Probable & Possible Reserves (3P)	2,242,000	3,758,400	2,868,400

Table 1

The study was undertaken by Robert S. Lee (P.E.) of Lee Engineering in Midland, Texas. This represents a 620% increase in 3P Reserves over the 2015 update with the 2016 study also upgrading previous Probable and Possible Reserves into the Proven Category.

Recent horizontal drilling in the region provided new analog production data that, for the first time, allowed an assessment of (horizontal) Proved Undeveloped reserves in our leases. It also recognised the Proved reserves existing behind pipe in the Fairway wells. The Company has issued a separate release containing additional information regarding the Reserves Report.



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- **Divestment Program**

Earlier in the year Target Energy Limited engaged global investment bank Canaccord Genuity (“Canaccord”) as adviser to the divestment of the Fairway Project (“Fairway”) in the Permian Basin, Texas.

The Operator of the Fairway project has since commenced a divestment program of additional leases and wells, some of which are near to or contiguous with Fairway leases. While Target does not hold any interests in these additional properties, it has agreed to their inclusion in a combined package, which improves the overall marketability of both sets of properties. Marketing of the combined package by Canaccord is presently underway with bids expected in August.

- **Drilling / Workovers**

No new drilling operations were undertaken in the Quarter. Workovers were undertaken at wells in the Darwin and BOA leases.

- **Sydney Wells**

As previously advised, following payout Apache Energy exercised its rights as a non-drilling co-tenant to back-in to the Sydney #1 and #2 wells. During the reporting period the Operator further advised the partners of retrospective adjustments to revenues and costs due to the change in interests in the Sydney wells. The adjustment was for US\$242,000.

Louisiana

East Chalkley, Cameron Parish (Target 35% WI)

The Pine Pasture #3 well remained shut in during the reporting period.

2. Production (1 April – 30 June 2016)

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)
E. Chalkley	35%	-	61	-	22	-	115,833	-	40,542
Fairway	33%-60%	17	405	9	226	6,658	212,032	3,324	116,268
Total		17	466	9	248	6,658	327,866	3,324	156,810

Net Production is scaled to Target’s Working Interest, before royalties; mmcf = million cubic feet; mmcfgd = 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).

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3. Lease Holdings

Target Energy	Leaseholdings			Depth Limits	TEX WI	Gross acres	Net acres
	Lease Name	County / Ph	Description				
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%	*320.0	192.0
	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%	320.0	108.0
	"Section 4"	Howard	S4, Block 32, T-2-S, A-1354 T & P RR Co Survey	None	60.00%	440.0	264.0
	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
	East Chalkley						
	Unit Agreement: CK W RA SU	Cameron Ph	S11, 13, 14 &15, T12S-R6W	8,000 ft - 10,000 ft	35.00%	714.9	250.2
<i>*subject to completion of lease extensions</i>					Total	3678.8	1732.2

Corporate

3.1. Legal

Legal action by Target subsidiary TELA Garwood LP (“TELA Garwood”) continues against Victory Energy Corporation and Aurora Energy Partners (“Victory”, “Aurora”). TELA Garwood’s suit charges that Aurora, acting by and through its general partner, Victory, breached its obligation to purchase certain of TELA Garwood’s interests in the West Texas Fairway Project (Howard and Glasscock counties) pursuant to a Purchase and Sale Agreement between TELA Garwood and Aurora dated June 30, 2014.

The court had previously ruled that the Victory’s individual officers and directors should be dismissed from the lawsuit - TELA Garwood’s motion for reconsideration on this limited issue was denied in July. A trial date is presently set for mid-August 2016.

3.2. Cash Position

As previously advised, the Company has convertible notes on issue totalling approximately \$8.971 million which mature on 31 March 2017. Noteholders representing approximately 72% of these notes have agreed to assist the Company by deferring the requirement to pay interest on the notes thereby alleviating the Company’s expenditure requirements.

The Company has also reduced corporate overheads to a minimum level whilst the sale process is underway. Amongst other cost reductions, the Managing Director has agreed to a 60% reduction in his fees and the other directors have agreed to defer any fees owed to them for the time being.

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The Company has appointed Canaccord Genuity as adviser to the divestment of the balance of Fairway. Canaccord is working with Target and its partners to market Fairway and negotiate with counterparties. The assets are now being jointly marketed with a larger parcel of properties. Bids are expected in August.

The Company had cash resources at 30 June 2016 of \$87,000. This balance included \$80,000 loaned to the Company by directors, with a further \$65,000 advanced subsequent to quarter end. These director loans are to be secured by a second-ranking lien (equal with existing 2nd Tranche Convertible Note-holders) in the Fairway asset.

At this time the most likely source of additional funding remains the sale of the Company's remaining interests in Fairway. If a favourable outcome from the sale process cannot be achieved in the short term, the Company will be required to seek additional financing and/or seek to restructure the existing convertible notes. There is no certainty that either an additional financing or a restructuring of the existing convertible notes would be successful, should they become necessary.

For further information, please contact the company at admin@targetenergy.com.au.

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, 01/05/2013

Name of entity

TARGET ENERGY LIMITED

ABN

73 119 160 360

Quarter ended ("current quarter")

30 June 2016

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	133	256*
1.2 Payments for (a) exploration & evaluation	-	-
(b) development	(79)	(914)
(c) production	(43)	(501)*
(d) administration	(144)	(1,070)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	1
1.5 Interest and other costs of finance paid	(65)	(334)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	3
Net Operating Cash Flows	(198)	(2,559)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	1,419
(b) equity investments	-	-
(c) other fixed assets	-	58
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	-	1,477
1.13 Total operating and investing cash flows (carried forward)	(198)	(1,082)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(198)	(1,082)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	194
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings	80	80
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other	-	(16)
	Net financing cash flows	80	258
	Net increase (decrease) in cash held	(118)	(824)
1.20	Cash at beginning of quarter/year to date	217	907
1.21	Exchange rate adjustments to item 1.20	(12)	4
1.22	Cash at end of quarter	87	87

* The YTD total previously reported for March 31 2016 has been adjusted in respect of the Fairway project operator's adjustment to prior period revenues which were reversed against production costs as a result of a re-classification of Sydney well revenues to amounts payable to non-drilling co tenant (Refer to the Leasing section of the Quarterly Activities Report).

Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	41
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Directors' salary and superannuation. No fees were paid to non-executive chairman or non-executive director during the quarter.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Noteholders representing notes with a face value of approximately \$6,485,000 have agreed to defer interest payments.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Convertible Notes - 8,971 Director Loans – 80
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	-
4.2 Development	-
4.3 Production	160
4.4 Administration	165
Total	325

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	87	217
5.2 Deposits at call	-	-
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	87	217

Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed	-	-	-
6.2	Interests in mining tenements and petroleum tenements acquired or increased	-	-	-

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference ⁺ securities (description)				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	1,031,206,428	1,031,206,428		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities (description)	119,422,000 10% coupon, expiry 31 March 2017 (total \$5.97m)	-	5 cents	5 cents
	60,000,000 10% coupon, expiry 31 March 2017 (total \$3.0m)	-	5 cents	5 cents
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options (description and conversion factor)	265,759,522 1.2c, 28/2/17	265,759,522 1.2c, 28/2/17		
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter	<i>Options</i>		<i>Exercise price</i>	<i>Expiry date</i>
7.11 Debentures (totals only)				
7.12 Unsecured notes (totals only)				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does ~~does not~~* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:



(~~Director~~/Company secretary)

Date: 29 July 2016

Print name: Rowan Caren

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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 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.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.