

Quarterly Report for the quarter ending 30 September 2016

• Company assessing bids as Fairway Divestment Process Continues

1. Operations

Texas

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

- **Divestment Program**

Earlier in the year Target Energy Limited engaged global investment bank CanaccordGenuity (“Canaccord”) as adviser to the divestment of the Fairway Project (“Fairway”) in the Permian Basin, Texas. The Fairway properties were later included in a larger combined package, improving the overall marketability of the aggregated properties. Bids for the combined package were due on 7 October 2016. While Canaccord and the divesting partners have since agreed to extend the bidding process for a further 4 weeks in order to attract additional bids, a number of bids have been received, including a cash offer for all properties in the package. The offer was accompanied by a Letter of Intent and remains subject to the bidder securing suitable finance and the receipt of any required regulatory approvals.

The bidder, a private Texas- based firm, is continuing its due diligence program while Canaccord and the divesting parties review the bid in detail. While this process is underway and until such time as the bidder and the divesting partners successfully conclude the drafting of a Purchase and Sale Agreement (PSA), the partners will continue to solicit offers from additional interested parties. No offer has been accepted by Target and its divesting partners at this stage.

- **Drilling / Workovers**

No new drilling operations were undertaken in the Quarter.

Louisiana

East Chalkley, Cameron Parish (Target 35% WI)

The Pine Pasture #3 well remained shut in during the reporting period. The Operator is advancing plans to bring the well back on-line.



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2. Production (1 July – 30 September 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%	-	60.9	-	22.0	-	115,833	-	40,542
Fairway	33%-60%	19.0	424.2	9.4	235.6	7,045	218,984	3,290	119,558
Total		19.0	485.1	9.4	257.5	7,045	334,817	3,290	160,100

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).

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

*subject to completion of lease extensions

Total 3678.8 1732.2

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4. Corporate

4.1. 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.

A jury trial date, originally scheduled in August, was moved by the court and is presently set for February 2017.

4.2. Convertible Notes

As previously advised, the Company has convertible notes on issue totaling approximately \$8.971 million which mature on 31 March 2017.

At a meeting of Series 1 Noteholders (accounting for \$5.971 million) held on 28 September 2016, Series 1 Noteholders approved a resolution to allow the Security Trustee to waive default for non-payment of interest. Deferring the requirement to pay interest on the notes alleviates the Company’s expenditure requirements.

A second resolution was also passed to allow the Security Trustee to amend or vary the Transaction Documents; specifically it was proposed that any additional funding up to a maximum of \$400,000 provided after the date of the Noteholder meeting and by no later than 31 March 2017 will be provided a first ranking security interest over all equity ownership interests in TELA Garwood Limited, LP. It is the Company’s intention that the Convertible Notes will be subordinated such that the Convertible Notes will be secured by a second-ranking security interest over all equity ownership interests in TELA Garwood Limited, LP.

The Series 2 Noteholder (accounting for the balance of \$3 million) has separately agreed to defer interest through to 31 March 2017.

The Company is grateful for the support of its Noteholders.

4.3. Cash Position

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. The directors have also loaned funds to the Company, secured by a second-ranking lien (equal with existing 2nd Tranche Convertible Note-holders) in the Fairway asset.

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The Company had cash resources at 30 September 2016 of \$17,000. 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, 01/05/13, 01/09/16

Name of entity

Target Energy Limited

ABN

73 119 160 360

Quarter ended ("current quarter")

30 September 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (..3..months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	158	158
1.2 Payments for		
(a) exploration & evaluation		
(b) development		
(c) production	(102)	(102)
(d) staff costs		
(e) administration and corporate costs	(156)	(156)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(65)	(65)
1.6 Income taxes paid		
1.7 Research and development refunds		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(165)	(165)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment		
(b) tenements (see item 10)		
(c) investments		
(d) other non-current assets		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (..3..months) \$A'000
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)		
2.6 Net cash from / (used in) investing activities	-	-

3. Cash flows from financing activities		
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	95	95
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)		
3.10 Net cash from / (used in) financing activities	95	95

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	88	88
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(165)	(165)
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)	95	95
4.5 Effect of movement in exchange rates on cash held	(1)	(1)
4.6 Cash and cash equivalents at end of period	17	17

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	17	88
5.2 Call deposits		
5.3 Bank overdrafts		
5.4 Other (provide details)		
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	17	88

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	Nil
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	

Salary and fees payable to directors are being deferred.

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
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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8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	175	175
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 March 2017, Equal second ranking security*

Loan from Little Breton Nominees Pty Limited < CKG Rowe Family Trust A/c>, \$60,000, 10%pa, 31 March 2017, Equal second ranking security*

Loan from Gunz Pty Limited <Gunz Superannuation Fund A/C>, \$50,000, 10%pa, 31 March 2017, Equal second ranking security*

Loan from Little Breton Nominees Pty Limited <Little Breton Superannuation Fund>, \$20,000, terms to be confirmed

Loan from Spring Eagles Farm Inc, \$10,000, terms to be confirmed

Convertible Notes, Series 1, Various noteholders, \$5,971,000, 10%pa, 31 March 2017, First ranking security*

Convertible Notes, Series 2, Wyllie Group Pty Limited, \$3,000,000, 10%pa, 31 March 2017, Equal second ranking security*

Additional funding will be required to finance the Company's operations whilst a sale of the Fairway asset is secured and completed. Loans are one potential type of additional funding. The source, quantum and terms of any additional loans have not yet been determined.

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

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	
9.2 Development	
9.3 Production	160
9.4 Staff costs	40
9.5 Administration and corporate costs	190
9.6 Other (provide details if material)	
9.7 Total estimated cash outflows	390

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: ...31 October 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 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.