

Quarterly Report for the quarter ending 31 December 2016

1. Operations

Texas

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

- **Divestment Program**

In 2016 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.

There has been a high level of transactions in the Permian Basin recently and new potential bidders continue to contact Canaccord regarding the properties. A number of bids and indicative bids have been received, however 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 concluding discussions with the Louisiana Department of Natural Resources prior to commencing a work-over program to bring the well back on-line.



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2. Production (1 October – 31 December 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%	18.6	442.8	9.3	244.8	7,571	226,555	3,517	123,075
Total		18.6	503.7	9.3	266.8	7,571	342,388	3,517	163,617

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).

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%	*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

A settlement has been reached in regard to the legal action undertaken by Target subsidiary TELA Garwood LP (“TELA Garwood”) against Victory Energy Corporation and Aurora Energy Partners (“Victory”, “Aurora”). TELA Garwood’s suit charged 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.

As previously advised, the legal action has been resolved to Target’s satisfaction.

Terms of the settlement are confidential.

4.2. Funding

Target’s major shareholder, an unrelated party and entities controlled by two of Target’s directors agreed to make available a funding facility of \$305,000 (**New Secured Loans**) whilst a sale of the Fairway project was advanced and completed.

The New Secured Loans were secured by a first ranking security interest over Target’s interest in the Fairway asset.

Target’s existing Series 1 Convertible Notes issued in 2014, with a face value of \$5,971,100 previously held a first ranking security interest over the Fairway project. This was sub-ordinated to a second-ranking security interest. The Series 1 Noteholders authorised the creation of additional security interests ranking ahead of the Noteholders to secure additional funding up to \$400,000 at the meeting of Noteholders held in September 2016.

Target’s existing Series 2 Convertible Notes issued in 2014, with a face value of \$3,000,000, which are held by Wyllie Group Pty Ltd and the existing Directors’ Secured Loans, with a loan value of \$145,000, together previously held a joint second-ranking security interest over Fairway. This has now been subordinated to an equal third-ranking security interest.

As a result of these changes, the priorities between the secured parties in relation to their respective security interests is now as set out below:

Ranking	Security Holder	Amount (A\$)
First	New Secured Loans	\$305,000
Second	Series 1 Convertible Notes	\$5,971,000
Equal Third	Series 2 Convertible Notes (Wyllie Group)	\$3,000,000
Equal Third	Directors’ Secured Loans	\$145,000

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ASX Waiver

The ASX has granted a waiver from ASX Listing Rule 10.1 to the extent necessary to permit the Company to:

1. Grant security over its interest in the Fairway Project in favour of Little Breton Nominees Pty Ltd (ACN 008 813 956) as trustee for The Little Breton Superannuation Fund A/C, Gunz Pty Limited (ACN 008 935 724) as trustee for the Gunz Superannuation Fund A/C and Wyllie Group Pty Ltd (ACN 008 763 120) (“Lenders”) (“Security”) pursuant to security documents relating to loans from these parties totalling \$295,000 (“New ASX Waiver Secured Loans”) (“Security Documents”), without obtaining shareholder approval. The conditions of the waiver are set out on the Company’s ASX release of 24 November 2016.

4.3. Financial Position

The Company has 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 for the time being and the other directors have agreed to defer any fees owed to them for the time being.

The Company had cash resources at 31 December 2016 of \$18,000. At this time the most likely source of additional funding remains drawdown of the balance of the existing loan facilities (\$45,000), the proceeds of the settlement reached with Victory/Aurora and 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.

The Operator of the Fairway project has generously accommodated Target during recent times. The Operator follows a process of net checking Target’s share of revenues against its share of costs and applying the difference to the Joint Interest Billing.

In the Appendix 5B “Consolidated Statement of Cash Flows”, Target has previously reported revenues received and operational expenses incurred when net checked to the Joint Interest Billing statement (JIB) by the Operator of the Fairway project. The Board has taken the view that this treatment is no longer appropriate. The YTD figures previously reported in the Appendix 5B have been restated accordingly.

In the interests of providing a more complete summary of the Company’s financial position than can be provided by the Appendix 5B cashflow statement, the Company provides the following summary of movements on the JIB.

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Joint Interest Billing Statement Balance		
All in USD	December quarter	September quarter
Opening Balance of JIB	(770,041)	(628,145)
Revenues credited	129,269	116,376
Expenditure debited	(131,492)	(214,716)
Remittances to Target	-	(43,556)
Payments by Target	-	-
Closing Balance of JIB	(772,264)	(770,041)

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")

31 December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (..6..months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers ¹	-	56
1.2 Payments for		
(a) exploration & evaluation		
(b) development		
(c) production ¹	-	-
(d) staff costs		
(e) administration and corporate costs	(233)	(389)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	-	(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	(233)	(398)
¹ Refer to section 4.3 of the Activities Report.		

2. Cash flows from investing activities

- 2.1 Payments to acquire:
- (a) property, plant and equipment
 - (b) tenements (see item 10)
 - (c) investments

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (.6..months) \$A'000
(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)		
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	234	329
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	234	329

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	17	88
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(233)	(398)
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)	234	329

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (..6..months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	(1)
4.6	Cash and cash equivalents at end of period	18	18

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	18	17
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)	18	17

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
41
Nil

Fees payable to non-executive directors continue to be deferred.

Salary payable to the managing director was deferred between July and September, but has been paid for Oct to December.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
Nil
Nil

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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	450	405
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 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 March 2017, 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 March 2017, 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 March 2017, Equal first ranking security* Amount drawn at quarter end \$60,000. Interest is currently being deferred.

Loan from Spring Eagles Farm Inc, \$10,000, 10%pa, 31 March 2017, 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 March 2017, Equal first ranking security* Amount drawn at quarter end \$170,000. Interest is currently being deferred.

Loan from Gunz Pty Limited <Gunz Superannuation Fund A/C>, \$25,000, 10%pa, 31 March 2017, Equal first ranking security* Amount drawn at quarter end \$20,000. Interest is currently being deferred.

Convertible Notes, Series 1, Various noteholders, \$5,971,000, 10%pa, 31 March 2017, Second ranking security* Interest is currently being deferred.

Convertible Notes, Series 2, Wyllie Group Pty Limited, \$3,000,000, 10%pa, 31 March 2017, Equal third ranking security* Interest is currently being deferred.

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	
9.4 Staff costs	40
9.5 Administration and corporate costs	470
9.6 Other (provide details if material)	
9.7 Total estimated cash outflows	510

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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 January 2017.....

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.