



# TARGET ENERGY LIMITED

Financial Services Guide and Independent Expert's Report

26 September 2018

*We have concluded that the Proposed Transaction is fair and reasonable*

# FINANCIAL SERVICES GUIDE

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 (“RSM Corporate Australia Pty Ltd” or “we” or “us” or “ours” as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (“FSG”). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the financial services that we will be providing you under our Australian Financial Services Licence, Licence No 255847;
- remuneration that we and/or our staff and any associates receive in connection with the financial services that we will be providing to you;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

## Financial services we will provide

For the purposes of our report and this FSG, the financial service we will be providing to you is the provision of general financial product advice in relation to securities.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

## General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

## Benefits that we may receive

We charge various fees for providing different financial services. However, in respect of the financial service being provided to you by us, fees will be agreed, and paid by, the person who engages us to provide the report and such fees will be agreed on either a fixed fee or time cost basis. You will not pay to us any fees for our services; the Company will pay our fees. These fees are disclosed in the Report.

Except for the fees referred to above, neither RSM Corporate Australia Pty Ltd, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

## Remuneration or other benefits received by our employees

All our employees receive a salary.

## Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

## Associations and relationships

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia, a large national firm of chartered accountants and business advisers. Our directors are partners of RSM Australia Partners.

From time to time, RSM Corporate Australia Pty Ltd, RSM Australia Partners, RSM Australia and / or RSM Australia related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

## Complaints resolution

### Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints should be directed to The Complaints Officer, RSM Corporate Australia Pty Ltd, P O Box R1253, Perth, WA, 6844.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

### Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ("FOS"). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website or by contacting them directly via the details set out below.

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001  
Toll Free: 1300 78 08 08  
Facsimile: (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

## Contact details

You may contact us using the details set out at the top of our letterhead on page 5 of this report.

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26 September 2018

The Directors  
Target Energy Limited  
Suite 5, 6 Richardson Street  
WEST PERTH WA 6005

Dear Directors

## INDEPENDENT EXPERT'S REPORT ("REPORT")

### 1. Introduction

- 1.1 This Independent Expert's Report (the "Report" or "IER") has been prepared to accompany the Notice of General Meeting and Explanatory Statement ("Notice") to be provided to shareholders for a General Meeting of Target Energy Limited ("TEX", "Target Energy" or "the Company") to be held on or around 25 October 2018, at which shareholder approval will be sought for (among other things) the disposal of its interest in the Fairway Project to Fairway Energy Limited ("Fairway Energy").
- 1.2 Target Energy has entered into a binding agreement with Fairway Energy and InvestMet Limited ("InvestMet") pursuant to which the Company has conditionally agreed to dispose of its interest in the Fairway Project ("Disposal") in order to complete a debt restructure whereby payment obligations relating to convertible notes ("Convertible Notes"), director loans, debt payable to InvestMet and outstanding director fees will be eliminated by the way of a debt restructure ("Debt Restructure").
- 1.3 Target Energy proposes to issue 2,346,074,270 shares as consideration in order to eliminate a \$2.346 million debt payable to InvestMet ("InvestMet Debt").
- 1.4 The Company is seeking shareholder approval for the purposes of item 7 of Section 611 of the Corporations Act 2001 ("the Act") on the basis that following the conversion of the InvestMet Debt, InvestMet and its associates will increase their shareholding interest in the Company from the current 10.9% to 44.7%.
- 1.5 Following the Disposal and Debt Restructure, the Company intends to undertake a share consolidation on a 40:1 basis ("Share Consolidation") and a capital raising by private placement to raise up to \$0.5 million ("Capital Raising").
- 1.6 The Resolutions set out in the Notice are conditional on each of the other resolutions being approved. The request for approval of the issue of shares on conversion of the InvestMet Debt is included as Resolution 7

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in the Notice. Resolution 7 is subject to the approval of Resolutions 1 to 13, inclusive, in the Notice and therefore we consider all of the resolutions to form part of the same transaction (“the Proposed Transaction”).

- 1.7 The Directors of the Company have requested that RSM Corporate Australia Pty Ltd (“RSM”), being independent and qualified for the purpose, express an opinion as to whether the Proposed Transaction is fair and reasonable to shareholders not associated with the Proposed Transaction (“Non-Associated Shareholders”).
- 1.8 The ultimate decision whether to approve the Proposed Transaction should be based on each Shareholder’s assessment of their circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt as to the action they should take with regard to the Proposed Transaction, or the matters dealt with in this Report, Shareholders should seek independent professional advice.

## 2. Summary and conclusion

### Opinion

2.1 In our opinion, and for the reasons set out in Sections 11 and 12 of this Report, the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders of Target Energy.

### Approach

2.2 In assessing whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders, we have considered Australian Securities and Investment Commission (“ASIC”) Regulatory Guide 111 – *Content of Expert Reports* (“RG 111”), which provides specific guidance as to how an expert is to appraise transactions.

2.3 Where an issue of shares by a company otherwise prohibited under section 606 of the Act is approved under item 7 of section 611, and the effect on the company shareholding is comparable to a takeover bid, such as the Proposed Transaction, RG 111 states that the transaction should be analysed as if it was a takeover bid.

2.4 ASX Listing Rule 10.1 states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to a related party or substantial shareholder or any of its associates without the approval of holders of the entity’s ordinary securities.

2.5 Therefore, we have considered whether or not the Proposed Transaction is “fair” to the Non-Associated Shareholders by assessing and comparing:

- The Fair Market Value of a Share in Target Energy on a control basis prior to the Proposed Transaction; with
- The Fair Market Value of a Share in Target Energy on a non-control basis immediately post completion of the Proposed Transaction,

and, considered whether the Proposed Transaction is “reasonable” to the Non-Associated Shareholders by undertaking an analysis of the other factors relating to the Proposed Transaction which are likely to be relevant to the Non-Associated Shareholders in their decision of whether or not to approve the Proposed Transaction.

2.6 Further information of the approach we have employed in assessing whether the Proposed Transaction is “fair” and “reasonable” is set out at Section 4 of this Report.

### Fairness

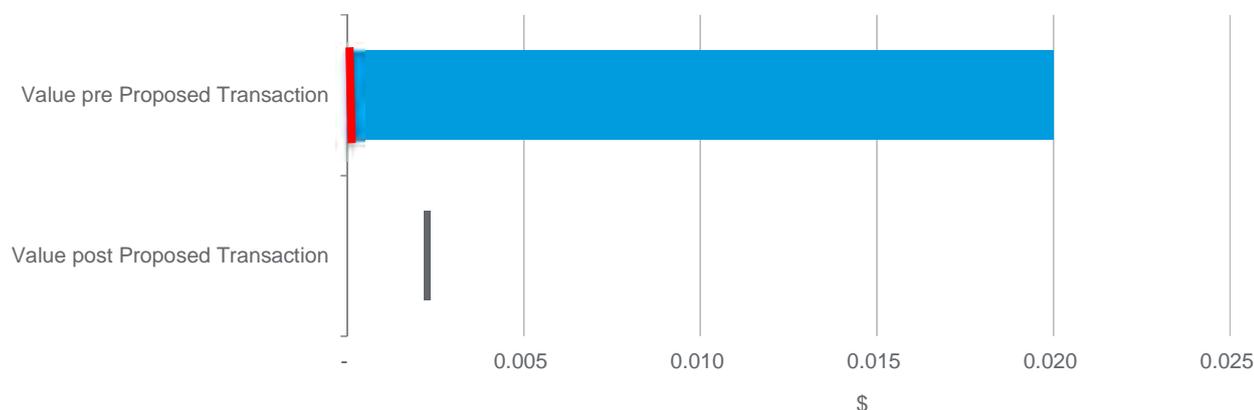
2.7 Our assessed values of a Target Energy Share prior to and immediately after the Proposed Transaction, on a post-consolidation basis, are summarised in the table and figure below.

**Table 1 Assessed values of a Target Energy Share pre and post the Proposed Transaction**

Assessment of fairness	Ref	Value per Share		
		Low	High	Preferred
Fair value of a Target Energy Share pre the Proposed Transaction - Control basis	9.2	-	0.02	-
Fair value of a Target Energy Share post the Proposed Transaction - Non control basis	10.2	0.002	0.002	0.002

Source: RSM analysis

**Figure 1 Target Energy Share valuation graphical representation**



Source: RSM analysis

- 2.8 The chart above indicates that the assessed undiluted value post the Proposed Transaction falls within the range of undiluted values prior to the Proposed Transaction (on a post-consolidation basis). When considering the preferred values, the assessed fair value of a Target Energy share post the Proposed Transaction of \$0.002 is greater than the assessed fair value of a share pre the Proposed Transaction of \$nil, on a post-consolidation basis.
- 2.9 We note that the value range for a Target Energy share prior to the Proposed Transaction is wide. This is primarily due to the assessed range of values for the undeveloped acreage at the Company's Fairway Project, as advised by Fluid Energy Consultants ("Fluid"), reflecting the risk and uncertainty of undeveloped lease assets. Adopting Fluid's preferred value of this undeveloped acreage results in an assessed net liability position of Target Energy pre the Proposed Transaction, and therefore a \$nil value per share.
- 2.10 In accordance with the guidance set out in ASIC RG 111, and in the absence of any other relevant information, for the purposes of Section 611, Item 7 of the Act, we consider the Proposed Transaction to be **fair** to the Non-Associated Shareholders of Target Energy. We have reached this conclusion based on the analysis of pre and post Proposed Transaction values, specifically the preferred values.

## Reasonableness

- 2.11 RG 111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the offer closes. As such, we have also considered the following factors in relation to the reasonableness aspects of the Proposed Transaction:
- The future prospects of the Company if the Proposed Transaction does not proceed; and
  - Any other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding.
- 2.12 If the Proposed Transaction does not proceed the Company will continue to manage its existing assets, including the Fairway Project, and look for further opportunities including an alternative divestment of the Fairway Project.
- 2.13 The majority of the Company's existing debt was due to become payable on 30 September 2018 but has been extended until 31 December 2018. The Company's ability to continue trading as a going concern will depend on its ability to restructure its debt, obtain short term financing or raise funds through the sale of assets or capital raising in order to meet its debt obligations.

2.14 There is no guarantee that the Company would be able to secure additional funding or debt financing on favourable terms and therefore the future of the Company is uncertain if the Proposed Transaction does not proceed, and the Company may consider a potential option of appointing voluntary administrators. The Board considers it likely that there would be no return to Shareholders in such circumstances.

2.15 The key advantages of the Proposed Transaction are:

Advantage	Details
It is fair	If a transaction is fair, then it is also considered to be reasonable.
Settlement of existing debts of the Company	The Proposed Transaction will eliminate all current debts of Target Energy, including the Convertible Notes with a face value of \$8.97 million and accrued interest of \$1.95 million, along with other loans and outstanding directors fees. The Company does not currently have the capacity to repay these debts without additional capital raising or asset disposals.
Reduce ongoing costs of the Company	The Proposed Transaction will eliminate future costs in respect of the Fairway Project, resulting in a lower ongoing cash requirement for operating costs and capital expenditure of the Company. Tenure of the Fairway Project leases is dependent on continuous production of hydrocarbons from one or more wells, if production ceases then the licence may be revoked, resulting in an ongoing expenditure requirement of the holder for operations and fracture stimulation of wells.
Allows pursuit of alternative investments	The Proposed Transaction will enable the Company to consider alternative asset acquisitions in order to add value to Shareholders and potentially move towards achieving reinstatement to the official list of the ASX (subject to re-compliance with the ASX Listing Rules and associated approvals).
Realises value for the Fairway Project	The Company initiated a disposal strategy for the Fairway Project in 2016 but was unable to secure a divestment due to market conditions. The Proposed Transaction provides Shareholders with an immediate realisation of value for the project.

2.16 The key disadvantages of the Proposed Transaction are:

Disadvantage	Details
Dilution of Non-Associated Shareholders and increase in InvestMet interests	InvestMet and its associates will own approximately 45% of Shares on issue in the Company upon Settlement of the Proposed Transaction, an increase from the current share-holding of 11%. The interest of existing Non-Associated Shareholders will reduce from 89% to 47% (excluding shares issued under the Capital Raising). An interest of 45% provides InvestMet with significant influence over matters that require approval by shareholders and the ability to block Special Resolutions of the Company.
No participation in future benefits of the Fairway Project	The Company (and Non-Associated Shareholders) will not be able to participate in or derive any future benefits from the Fairway Project (other than through repayment of the Fairway Loan or settlement under the Trilogy Legal Action).
Change in investment profile	The Proposed Transaction involves the Company selling its main asset, which may not be consistent with the investment objectives of all Shareholders.
No guarantee of re-instatement to ASX trading	The Company's shares are currently suspended. Target Energy will be required to satisfy ASX requirements in order to be reinstated to the official list which the Proposed Transaction does not fulfil. There is a risk the Company may not be able to locate and complete the acquisition of other suitable investment opportunities within a reasonable time, which may result in the Company being delisted if the ASX considers that the Company does not have suitable operations to justify a listing on ASX.

2.17 We are not aware of any alternative proposals which may provide a greater benefit to the Non-Associated Shareholders of Target Energy at this time.

2.18 In our opinion, the position of the Non-Associated Shareholders of Target Energy if the Proposed Transaction is approved is more advantageous than if the Proposed Transaction is not approved. Therefore, in the absence of any other relevant information or a superior offer, we consider that the Proposed Transaction is **reasonable** for the Non-Associated Shareholders of Target Energy.

### 3. Summary of Proposed Transaction

#### Overview

- 3.1 In 2016, the Company began to pursue a potential divestment of its Fairway Project located in the Permian Basin, Texas, and in the intervening period has reduced operations to minimise all costs.
- 3.2 The Company's operations have been largely funded through debt secured by the Fairway Project as summarised below:
- (a) 119,422,000 convertible notes to a value of \$5,971,100 (each with a face value of \$0.05, convertible into one Share, a maturity date of 30 September 2018 and a second ranking security interest over the Company's interest in the Fairway Project) ("First Convertible Notes"). Accrued interest on the First Convertible Notes for the period until 30 September 2018 will be \$964,136;
  - (b) 60,000,000 convertible notes to a value of \$3,000,000 to the Wyllie Group (each with a face value of \$0.05, convertible into one Share, a maturity date of 30 September 2018 and secured by an equal third ranking security interest over the Company's interest in the Fairway Project, ("Second Convertible Notes"). Accrued interest on the Second Convertible Notes for the period until 30 September 2018 will be \$720,000;
  - (c) loans entered in June and July 2016, pursuant to which the Company loaned a total of \$145,000 from Directors of the Company at the time ("First Loans"). Current Directors, Mr Stephen Mann and Mr Laurence Roe continue to hold First Loans in amounts \$50,000 and \$35,000 respectively through entities controlled by them. Accrued interest on the First Loans for the period to 30 September 2018 will be \$32,774;
  - (d) further loans entered in October 2016 and January 2017, pursuant to which the Company loaned a total of \$305,000 from Directors of the Company at the time and Wyllie Group ("Additional Loans"). Current Director, Mr Stephen Mann, holds a loan for \$25,000 through an entity controlled by him. Accrued interest on the Additional Loans for the period to 30 September 2018 will be \$57,323. The Additional Loans are secured by an equal first ranking security interest over the Company's interest in the Fairway Project; and
  - (e) a refinance proposal with InvestMet, pursuant to which InvestMet loaned a total of \$2,346,074. The InvestMet Debt is secured by an equal first ranking security interest over the Company's interest in the Fairway Project and a General Security Agreement. Accrued interest on the InvestMet Debt for the period to 30 September 2018 will be \$172,792.
- 3.3 The total of accrued interest to be owed at 30 September 2018 on First Convertible Notes, Second Convertible Notes, First Loans, Additional Loans and the InvestMet Debt will be \$1,947,025 ("Accrued Interest"). Each party has agreed to a debt moratorium for the period from 30 September 2018 until 31 December 2018, prior to which settlement of the Proposed Transaction is expected to occur, if approved.
- 3.4 Additionally, since January 2018, the Fairway Project has required specific further funding of \$696,684 which was advanced to the Company by InvestMet ("InvestMet Fairway Funding"). As at the date of the Notice, the InvestMet Fairway Funding remains outstanding.
- 3.5 The Company also owes outstanding fees to current and previous Directors of \$318,713 as at the date of the Notice, being \$145,151 owed to current Director Mr Stephen Mann and \$173,562 owed to previous Directors ("Outstanding Director Fees").

## Memorandum of Understanding

3.6 Target Energy has entered into a Memorandum of Understanding (“MOU”) with Fairway Energy, InvestMet and other creditors of the Company, pursuant to which the Company has conditionally agreed to:

- (a) dispose of its 100% interest in the Fairway Project to Fairway Energy (“Disposal”);
- (b) undertake a debt restructure whereby payment obligations under the First Convertible Notes, Second Convertible Notes, Additional Loans, the InvestMet Debt and the Outstanding Director Fees will be eliminated by the way of a debt restructure (“Debt Restructure”);
- (c) undertake a 40:1 consolidation of share capital (“Consolidation”); and
- (d) undertake a \$0.5 million capital raising before costs (“Capital Raising”).

3.7 Details of the Debt Restructure and Disposal are summarised as follows:

### *Debt Restructure*

3.8 Subject to receipt of all necessary shareholder and debtholder approvals, all existing debts of the company will be eliminated on the following terms, on a pre-consolidation basis:

- Conversion of the InvestMet Debt, Additional Loans and First Loans being converted to shares at \$0.001 per share;
- Conversion of 25% of the Outstanding Directors Fees to Shares at \$0.001 per share. Target Energy has agreed that the remainder of the Outstanding Director Fees will be paid from proceeds of an ongoing legal action against Trilogy;
- conversion of 10% of the face value of the First Convertible Notes (\$597,110) to Shares at \$0.001 per Share; and
- conversion of 10% of the face value of the Second Convertible Notes (\$300,000) to Shares at \$0.001 per share.

3.9 The remainder (90%) of the First Convertible Notes and the Second Convertible Notes, and the Accrued Interest obligations are to be forgiven in consideration for the issue of Fairway Shares under the Disposal Agreement (see below).

### *Disposal*

3.10 Under the terms of the MOU, the Company has agreed to sell the Fairway Project to Fairway Energy, an unlisted private company.

3.11 In consideration for the Fairway Project, Fairway Energy will issue:

- 7,321,017 of Fairway Shares to First Convertible Noteholders and holders of Accrued Interest; and
- 2,700,000 of Fairway Class B Shares to Second Convertible Noteholders.

3.12 The issue of Fairway Shares to the First Convertible Noteholders and Second Convertible Noteholders will release the Company from 90% of the obligations in respect of the First Convertible Notes and the Second Convertible Notes.

3.13 Fairway Class B Shares are shares in Fairway Energy with the same rights as Fairway Shares, however upon a sale of the Fairway Project or distribution of operating profit by Fairway Energy, sale proceeds or profits (as applicable) will be distributed to holders of Fairway Shares at a return of up to \$1.00 per Fairway Share, prior

to being distributed to holders of Fairway Class B Shares, with any surplus being distributed pro rata among the classes.

- 3.14 The terms of the Proposed Transaction also include commitments that Fairway Energy will assume the Company's liabilities and obligations of the InvestMet Fairway Funding from settlement, and will be repaid through the proceeds of a capital raising by Fairway Energy. In addition, 75% of funding provided by the Company for the Fairway Project between October 2017 and June 2018, together with 75% of leave entitlements of the Managing Director (in total approximately \$0.37 million) will be recorded as a loan by Fairway Energy on settlement, repayable to Target Energy from operating cashflows of Fairway Energy or sale proceeds from the Fairway Project.

### Key conditions of the Proposed Transaction

- 3.15 Completion of the Proposed Transaction is subject to and conditional upon a number of conditions precedent, including:
- (i) Target Energy obtaining all approvals from Shareholders to give effect to the above transactions (approval for which is being sought at the Meeting);
  - (ii) Fairway Energy obtaining all approvals from its shareholders to give effect to the above transactions;
  - (iii) The receipt of all approvals from the holders of the First Convertible Note that are necessary to give effect to the above transactions; and
  - (iv) The receipt of all necessary governmental, regulatory and third party approvals to complete the above transactions.

### Rationale for the Proposed Transaction

- 3.16 Following a strategic review and considering various initiatives, Target Energy concluded that disposing of the Fairway Project is the most effective way to restructure its balance sheet and ensure its ongoing financial viability.
- 3.17 Target Energy considers that the disposal of its Fairway Project will offer certainty to the Company, its shareholders and its various debt holders by providing a mechanism for repayment of the various outstanding debts of the Company. The Company further considers that the divestment of the Fairway Project will optimise the timing and value of its ultimate sale.

### Impact of the Proposed Transaction on Target Energy's Capital Structure

- 3.18 The table below sets out a summary of the capital structure of Target Energy prior to and post the Proposed Transaction.

**Table 2 Share structure of Target Energy pre and post the Proposed Transaction**

	Prior to Proposed Transaction		Post Proposed Transaction	
<b>Shares on issue</b>				
Non-Associated Shareholders	1,148,013,530	89%	64,370,040	46%
InvestMet	140,992,898	11%	62,176,679	45%
Capital Raising	-	0%	12,500,000	9%
<b>Total shares on issue</b>	<b>1,289,006,428</b>	<b>100%</b>	<b>139,046,720</b>	<b>100%</b>

Source: Company estimates

3.19 The Non-Associated Shareholders of Target Energy hold 89% of shares on issue in the Company at the date of this report. Following the completion of the Proposed Transaction, InvestMet will hold 45% of the issued share capital of Target Energy and the Non-Associated Shareholders will hold 46% (or 55% including the new shares issued under the Capital Raising).

3.20 The shares to be issued under the Proposed Transaction are set out in the table below:

**Table 3 Shares to be issued under the Proposed Transaction**

Number of shares	Non-Associated	Directors	InvestMet	Total
Conversion of First Loans	60,000,000	85,000,000	-	145,000,000
Conversion of Additional Loans	280,000,000	25,000,000	-	305,000,000
Conversion of InvestMet Debt	-	-	2,346,074,270	2,346,074,270
Conversion of 25% of Directors fees	43,390,411	36,287,671	-	79,678,082
Conversion of 10% of First Notes	597,110,000	-	-	597,110,000
Conversion of 10% of Second Notes	300,000,000	-	-	300,000,000
<b>Total shares to be issued (pre-consolidation)</b>	<b>1,280,500,411</b>	<b>146,287,671</b>	<b>2,346,074,270</b>	<b>3,772,862,352</b>
Existing shares on issue	1,036,990,381	111,023,149	140,992,898	1,289,006,428
<b>Total shares on issue (pre-consolidation)</b>	<b>2,317,490,792</b>	<b>257,310,820</b>	<b>2,487,067,168</b>	<b>5,061,868,780</b>
Shares on issue (post-consolidation 40:1)	57,937,270	6,432,771	62,176,679	126,546,720
Capital raising	12,500,000	-	-	12,500,000
<b>Total shares on issue (post Proposed Transaction)</b>	<b>70,437,270</b>	<b>6,432,771</b>	<b>62,176,679</b>	<b>139,046,720</b>

Source: Company estimates

## 4. Scope of the Report

### Corporations Act

- 4.1 Section 606 of the Act prohibits a person from acquiring a relevant interest in the issued voting shares of a public company if the acquisition results in that person's voting interest in the company increasing from a starting point that is below 20% to an interest that is above 20%. Completion of the Proposed Transaction will result in InvestMet and its associates increasing their interest in Target Energy from 11% to approximately 45%.
- 4.2 Under Item 7 of Section 611 of the Act, the prohibition contained in Section 606 does not apply if the acquisition has been approved by the Non-Associated Shareholders of the company.
- 4.3 Accordingly, the Company is seeking approval from the Non-Associated Shareholders for Resolution 7 under Item 7 of Section 611 of the Act.
- 4.4 Section 611(7) of the Act states that shareholders must be given all information that is material to the decision on how to vote at the meeting. ASIC Regulatory Guide 111 advises the requirement to commission an Independent Expert's Report in such circumstances and provides guidance on the content.

### Basis of evaluation

- 4.5 In determining whether providing the Proposed Transaction is "fair" and "reasonable" we have given regard to the views expressed by the ASIC in RG 111.
- 4.6 RG 111 provides ASIC's views on how an expert can help security holders make informed decisions about transactions. Specifically, it gives guidance to experts on how to evaluate whether or not a proposed transaction is fair and reasonable.
- 4.7 RG 111 states that the expert's report should focus on:
- the issues facing the security holders for whom the report is being prepared; and
  - the substance of the transaction rather than the legal mechanism used to achieve it.
- 4.8 Where an issue of shares by a company otherwise prohibited under section 606 is approved under item 7 of section 611 and the effect on the company's shareholding is comparable to a takeover bid, RG 111 states that the transaction should be analysed as if it was a takeover bid.
- 4.9 RG 111 applied the fair and reasonable test as two distinct criteria in the circumstance of a takeover offer, stating:
- A takeover offer is considered "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer; and
  - A takeover is considered "reasonable" if it is fair, or where the offer is "not fair" it may still be reasonable if the expert believes that there are sufficient reasons for security holders to accept the offer.
- 4.10 Consistent with the guidelines in RG 111, in determining whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders, the analysis undertaken is as follows:
- a comparison of the fair value of an ordinary Share in Target Energy prior to (on a control basis) and immediately following (on a non-control basis) the Proposed Transaction – fairness; and

- a review of other significant factors which Non-Associated Shareholders might consider prior to approving the Proposed Transaction – reasonableness.

4.11 The other significant factors to be considered include:

- other prospects of the Company if the Proposed Transaction does not proceed; and
- any other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding.

4.12 Our assessment of the Proposed Transaction is based on economic, market and other conditions prevailing at the date of this Report.

## 5. Profile of Target Energy Limited

### Background

- 5.1 Target Energy is an Australian public company listed on the Australian Securities Exchange, with its core asset being a working interest in the Fairway Project in Texas, USA.
- 5.2 In 2016, the Company began to pursue a potential divestment of its Fairway Project and curtailed operations to minimise all costs as well as reducing corporate overheads to a minimum.
- 5.3 The Company's shares have been suspended from official quotation on the ASX since 14 December 2017.

#### *Fairway Project, Permian Basin, Texas*

- 5.4 The Fairway Project comprises of 2,080 gross acres held by production and up to 884 acres in undeveloped leases, with the Company holding working interests ranging from 33.75% to 60%, with an average of 50.2%.
- 5.5 In the 2017 financial year the partners of the Fairway Project limited their development activities to conserve cash in a low-price oil environment and as such, the only operations carried out were routine workovers of existing wells to maintain production.
- 5.6 Further details on the Fairway Project are contained in the Technical Specialist's Report at Appendix F.

### Directors and management

- 5.7 The directors and key management of Target Energy are summarised in the table below.

**Table 4 Target Energy Directors**

Name	Title	
Mr Laurence Roe	Managing Director	Mr Roe is a petroleum professional with over 35 years' experience gained in the industry both in Australian and international projects. He commenced his career with Santos Limited, later taking a senior technical position with Magellan Petroleum Limited where he was later appointed exploration manager. Mr Roe's experience encompasses most Australian sedimentary basins, as well as the USA, New Zealand, Mauritania, Tanzania, Canada, Indonesia, Belize and Argentina
Mr Stephen Mann	Non-Executive Director	Mr Mann is a Fellow of Chartered Accountants of Australia and New Zealand and has more than 30 years' experience as a chartered accountant. Mr Mann has no other listed company directorships and has not held any other listed company directorships in the last three years.
Mr Matthew Battrick	Non-Executive Director	Mr Battrick is an experienced oil and gas executive with over 35 years in international exploration and production, both conventional and unconventional. This has included, more recently, 10 years in senior management and executive director roles within ASX-listed oil and gas companies. In particular, Mr Battrick has had substantial experience in petroleum projects within the United States.

Source: Company

### Financial information of Target Energy

- 5.8 The information in the following section provides a summary of the financial performance and position of Target Energy for the years ended 30 June 2017 and 30 June 2016 extracted from the audited financial statements of the Company. The unaudited financial position of Target Energy is also shown as at 30 June 2018 extracted from the Company's management accounts. We have not undertaken a review of the

Company's unaudited financial statements in accordance with Australian Auditing and Assurance Standard 2405 'Review of Historical Financial Information' and accordingly do not express an opinion on this financial information.

- 5.9 The auditor of Target Energy, HLB Mann Judd, issued an unqualified audit opinion on the financial statements for the year ended 30 June 2017 with an emphasis of matter relating the Company's ability to continue as a going concern as a result of material uncertainty around the future sources of funding for the Company.

## Financial performance

- 5.10 The following table sets out a summary of the financial performance of Target Energy for the two years ended 30 June 2017.

**Table 5 Target Energy historical financial performance**

\$	Ref	Year ended 30-Jun-17 Audited	Year ended 30-Jun-16 Audited
Revenue	5.12	652,908	732,174
Other income	5.12	424,524	1,276,205
		<b>1,077,432</b>	<b>2,008,379</b>
Oil and gas production expenses and taxes		(699,236)	(1,684,842)
Accounting expense		(33,602)	(54,456)
Audit fees		(52,500)	(129,002)
Consultants		(193,241)	(244,853)
Depreciation expense		(6,842)	(29,056)
Directors' fees		(130,000)	(130,000)
Employee benefits expense		(181,290)	(255,961)
Amortisation of convertible note costs		(69,019)	(90,785)
Amortisation of oil and gas properties		(178,196)	(316,569)
Impairment of oil and gas properties	5.13	-	(5,798,298)
Loss on disposal of property, plant and equipment		-	(14,338)
Foreign exchange gain/ (loss)		-	(70)
Interest expense		(1,255,358)	(1,582,575)
Legal expenses		(224,477)	(374,560)
Listing fees		(15,667)	(39,295)
Office expense		(109,242)	(73,453)
Promotional expenses		(864)	(522)
Other expenses		(61,040)	(71,170)
Share registry expense		(10,317)	(10,354)
Travel and accommodation		(109,477)	(39,520)
<b>Loss from continuing operations</b>	<b>5.11</b>	<b>(2,252,936)</b>	<b>(8,931,300)</b>
Income tax expense		-	-
<b>Loss from continuing operations after income tax expense</b>		<b>(2,252,936)</b>	<b>(8,931,300)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		16,357	178,377
<b>Total comprehensive loss</b>		<b>(2,236,579)</b>	<b>(8,752,923)</b>

Source: Company

- 5.11 Target Energy made a loss from continuing operations of \$2.25 million for the year ended 30 June 2017 which followed an \$8.9 million loss for the year ended 30 June 2016.
- 5.12 Revenue for the years ended 30 June 2016 and 30 June 2017 consisted of income derived from the production and sale of oil and gas. Revenue slightly decreased year on year as a result of decreased production following the sale of the Company's Merta Project and Section 28. Other income in FY16 reflects the gain on sale of these projects and associated plant and equipment. In FY17, other income related to a legal settlement on action undertaken by TELA Garwood LP (subsidiary of Target Energy) against Victory Energy Corporation and Aurora Energy Partners relating to a breach of a Purchase and Sale Agreement.
- 5.13 Impairment of oil and gas properties of \$5.8 million for the year ended 30 June 2016 was the result of reserve calculations being significantly affected by a 54% drop in the international oil price between July 2015 and June 2016.

## Financial position

- 5.14 The table below sets out a summary of the financial position of Target Energy as at 30 June 2017 and 30 June 2018.

**Table 6 Target Energy historical financial position**

\$	Ref	30-Jun-18 Unaudited	30-Jun-17 Audited
<b>Current assets</b>			
Cash and cash equivalents	5.16	8,337	356,939
Trade and other receivables	5.16	89,542	347,014
<b>Total current assets</b>		<b>97,879</b>	<b>703,953</b>
<b>Non-current assets</b>			
Property, plant and equipment	5.17	905,309	877,637
<b>Total non-current assets</b>		<b>905,309</b>	<b>877,637</b>
<b>Total assets</b>		<b>929,557</b>	<b>1,581,590</b>
<b>Current liabilities</b>			
Trade and other payables	5.18	1,539,272	3,832,346
Borrowings	5.19	3,017,758	459,000
Provisions	5.21	128,895	89,044
Convertible notes	5.16	9,182,064	8,324,904
<b>Total current liabilities</b>		<b>13,867,989</b>	<b>12,705,294</b>
<b>Non-current Liabilities</b>			
Provisions	5.21	232,104	281,310
<b>Total non-current liabilities</b>		<b>232,104</b>	<b>281,310</b>
<b>Total liabilities</b>		<b>14,100,093</b>	<b>12,986,604</b>
<b>Net liabilities</b>	<b>5.15</b>	<b>(13,170,536)</b>	<b>(11,405,014)</b>
<b>Equity</b>			
Issued capital		39,595,299	39,150,299
Reserves		7,424,074	7,523,724
Accumulated losses		(60,189,909)	(58,079,037)
<b>Total equity</b>		<b>(13,170,536)</b>	<b>(11,405,014)</b>

Source: Company

- 5.15 As at 30 June 2018, Target Energy had net liabilities of \$13.1 million primarily due to a significant level of debt and accrued interest.
- 5.16 The Company held \$8,337 of cash at 30 June 2018. Trade and other receivables as at 30 June 2018 principally comprise a small loan and GST receivable; as at 30 June 2017 the balance also included \$0.28 million of capital raising receivables.
- 5.17 Property, plant and equipment relates solely to the Fairway Project as at 30 June 2018.
- 5.18 Trade and other payables as at 30 June 2018 includes \$1.05 million of accrued interest, \$0.32 million of deferred directors fees and \$0.18 million of trade payables and other accruals as at 30 June 2018.
- 5.19 Borrowings comprise the InvestMet Debt, First Loans and Additional Loans outstanding as at the balance sheet date.
- 5.20 The convertible notes liability was recorded at \$9.18 million as at 30 June 2018.
- 5.21 Current provisions relate to employee entitlements for long service and annual leave. Non-current provisions of \$0.23 million as at 30 June 2018 relates to the present value of expenditure required to settle any restoration obligations for the oil and gas wells.

### Pro forma financial position

- 5.22 The table below sets out a summary of the financial position of Target Energy as at 30 September 2018 including, on a pro forma basis, management adjustments to show changes in the Company's financial position arising from the Proposed Transaction. The adjustments made by management are consistent with those set out in the pro forma financial information in Schedule 1 to the Notice of Meeting.

**Table 7 Target Energy proforma financial position**

\$	30-Jun-18 Unaudited	TEX share conversion	Asset Disposal & Interest Adjustments	Capital raising & Fairway Debt assignment	Proforma Unaudited
<b>Current assets</b>					
Cash and cash equivalents	8,337	-	-	450,000	458,337
Trade and other receivables	15,911	-	-	369,045	384,956
<b>Total current assets</b>	<b>24,248</b>	<b>-</b>	<b>-</b>	<b>819,045</b>	<b>843,293</b>
<b>Non-current assets</b>					
Property, plant and equipment	905,309	-	(905,309)	-	-
<b>Total non-current assets</b>	<b>905,309</b>	<b>-</b>	<b>(905,309)</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>929,557</b>	<b>-</b>	<b>(905,309)</b>	<b>819,045</b>	<b>843,293</b>
<b>Current liabilities</b>					
Trade and other payables	1,539,272	(79,680)	(1,154,662)	-	304,930
Borrowings	3,017,758	(2,796,074)	(221,684)	-	-
Provisions	128,895	-	-	-	128,895
Convertible notes	9,182,064	(897,110)	(8,284,954)	-	-
<b>Total current liabilities</b>	<b>13,867,989</b>	<b>(3,772,864)</b>	<b>(9,661,300)</b>	<b>-</b>	<b>433,825</b>
<b>Non-current Liabilities</b>					
Provisions	232,104	-	(232,104)	-	-
<b>Total non-current liabilities</b>	<b>232,104</b>	<b>-</b>	<b>(232,104)</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>14,100,093</b>	<b>(3,772,864)</b>	<b>(9,893,404)</b>	<b>-</b>	<b>433,825</b>
<b>Net assets</b>	<b>(13,170,536)</b>	<b>3,772,864</b>	<b>8,988,095</b>	<b>819,045</b>	<b>409,469</b>

Source: Company

- 5.23 Following the Proposed Transaction, Target Energy will not have any interest-bearing debt and will have cash of approximately \$0.45 million arising from the \$0.50 million Capital Raising net of estimated costs of \$50,000.
- 5.24 Liabilities of the Company will consist of the remaining 75% of the deferred directors fees (to be paid from the proceeds of the ongoing legal action), some trade payables and accrued expenses, and employee entitlement provisions.
- 5.25 The Company will also record the \$0.37 million loan receivable from Fairway Energy arising from the assignment of 75% of the Fairway Funding and Managing Director leave entitlements as set out in paragraph 3.14. The proforma net asset position is \$409,469.

## Capital structure

- 5.26 Target Energy has 1,289,006,428 ordinary shares on issue. The top 20 shareholders of Target Energy as at 14 August 2018 are set out below.

**Table 8 Target Energy Top 20 shareholders**

Rank	Name	Total Units	% Issued Share Capital
1	Wyllie Group Pty Limited	121,468,838	9.42%
2	InvestMet Limited	98,059,055	7.61%
3	Gunz Pty Ltd <Gunz S/F A/c>	77,487,940	6.01%
4	Little Breton Nominees Pty Ltd <The Little Breton S/F A/c>	74,520,386	5.78%
5	Michael Fotios <Michael Fotios Family A/c>	42,483,843	3.30%
6	Botsis Holdings Pty Ltd	40,000,000	3.10%
7	Petroe Exploration Services Pty Ltd	31,427,087	2.44%
8	Spring Eagles Farm Inc	28,969,501	2.25%
9	Mr Andrew William Spencer <The AJ Family A/c>	28,289,356	2.19%
10	GDR Pty Ltd <The Riley Super Fund A/c>	27,413,875	2.13%
11	Mr Damian Mario Cifonelli	24,000,000	1.86%
12	HSBC Custody Nominees (Australia) Limited	23,900,382	1.85%
13	Mr Philip Colin Hammond & Ms Betty Jeanette Moore	23,000,000	1.78%
14	Mr Steven Robert Steele McAlpine & Mrs Sandra Lynn McAlpine	22,069,779	1.71%
15	Ms Betty Jeanette Moore & Mr Philip Colin Hammond	22,000,000	1.71%
16	Perth Select Seafoods Pty Ltd	20,043,750	1.55%
17	Mr Andrew William Spencer <Spender Super Funds A/c>	20,000,000	1.55%
18	Pershing Australia Pty Ltd <Argonaut A/c>	20,000,000	1.55%
19	Oakmount Nominees Pty Ltd <Narromine Super Fund A/c>	19,309,027	1.50%
20	Mr Gregory John Sharpless & Mrs Jennifer Lee Sharpless	16,992,632	1.32%
<b>Top 20 Shareholding</b>		<b>781,435,451</b>	<b>60.62%</b>
<b>Total issued capital</b>		<b>1,289,006,428</b>	<b>100%</b>

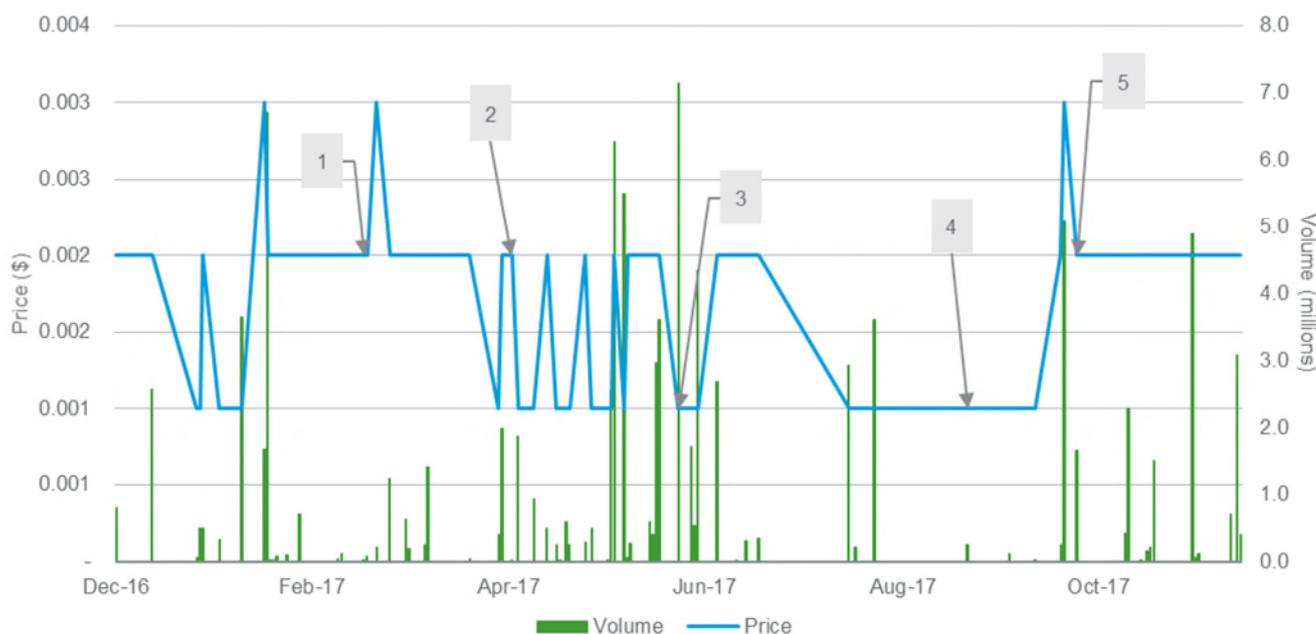
Source: Company

- 5.27 The last share issue was on 30 June 2017 when the Company issued 257,800,000 shares at \$0.0025 each as part of a recapitalisation program in association with InvestMet.

## Share price performance

5.28 The figure below sets out a summary of Target Energy closing share prices and traded volumes for the 12 months to 14 December 2017, when the Company was suspended from official quotation on the ASX.

**Figure 2 Target Energy daily closing share price and traded volumes**



Source: S&P Capital IQ/ ASX

5.29 In the 12 months period to the Target Energy's suspension from official quotation on the ASX, the Company's shares traded between \$0.003 per share and \$0.001 per share. During this period only 5.93% of the Company's shares were traded indicating very low liquidity.

5.30 The most active volume trading day occurred on 22 June 2017, where approximately 0.7% of the Company's shares were traded, however, there were multiple days where none of the Company's shares were traded.

5.31 The most significant trading days have been noted in the graph above and are analysed as follows:

No	Date	Comments
1	16-Mar-17	Target Energy announced that it had reached an agreement with InvestMet Ltd to secure additional funding as part of the Company's planned recapitalisation program.
2	1-May-17	Target Energy announced that waivers relating to listing rule 10.1 which had been previously granted by the ASX had been recinded and replaced in order to permit the Company to not seek shareholder approval regarding the security over the Company's interest in the Fairway Project.
3	22-Jun-17	Target Energy announced that it had received all relevant executed and relevant agreements in relation to its recapitalisation program with InvestMet Limited.
4	20-Sep-17	Target Energy released its proven oil reserves at the Fairway Project which had been assessed at 3.19 million barrels of oil equivalent, according to an independent reserves estimate.
5	24-Oct-17	Target Energy released its annual report to shareholders which outlined an 81% increase in the Company's barrel of oils equivalent compared to 30 June 2016. In addition, the annual report included an unqualified audit opinion.

## **6. Profile of InvestMet Pty Ltd**

### **Background**

6.1 InvestMet is a public unlisted company incorporated in Australia.

### **Directors**

6.2 The Directors of InvestMet consist of Mr Michael Fotios, Mr Alan Still and Mr George Fotios.

## 7. Industry analysis

### Global Oil and Gas Exploration and Production

#### Current Performance

- 7.1 Prices of crude oil and natural gas have been very volatile over the past five years and are expected to decline at an annualised rate of 12.9% to a total of \$2.3 trillion in 2018. In the years leading up to 2018, continued growth in emerging markets, including in large developing nations such as India and China, increased the demand for petroleum products and expanded their demand for energy, which in turn increased production levels. High prices of petroleum and gas led to operators expanding their operations at unconventional locations which were less cost effective at lower price points.
- 7.2 Due to the importance of oil and gas in a variety of industries, from transportation to electricity generation, key markets are often developing nations that are growing rapidly, instigating sharp growth in demand for oil and gas products for use in domestic industries. Countries that are classed as having emerging markets are Brazil, Russia, India and China (“BRIC nations”).
- 7.3 The key external drivers for the industry identified by IBISWorld are:
- GDP of the BRIC nations;
  - Industrial production index of OECD countries;
  - World price of crude oil; and
  - World price of natural gas.
- 7.4 The oil and gas exploration and production industry is currently in the mature age of its life cycle. The pace of technological change within the oil segment is said to be moderate, however is robust within the natural gas segment. Changes within the industries tend to involve matters of scale and scope as opposed to fundamental shifts in production. For example, offshore oil platforms are now larger in size and are able to be stationed in deeper water, however, operations have remained relatively unchanged.
- 7.5 The key success factors for the industry identified by IBISWorld are:
- Ability to accommodate environmental requirements;
  - Ability to find new resource deposits;
  - Complying with government regulations;
  - Ability to obtain licences;
  - Downstream ownership links; and
  - Output is sold under contract – incorporate long-term sales contracts.

#### Industry Outlook

- 7.6 The oil and gas exploration and production industry is predicted to be less volatile over the next five years, however there will be some fluctuation as a result of supply and demand balance shifts. IBIS World forecasts industry revenue to grow at an annualised rate of 2.9% to \$2.6 trillion over the five years to 2023. Prices within the industry are expected to increase over this period as a result of increased costs associated with extraction of oil and this is predicted to be met with an expansion global demand for oil.

7.7 It is expected that downward forces will restrain increases in the price of oil and as it becomes more expensive, the incentive to invest in research to search for alternatives will also increase. For example, cars are becoming increasingly fuel efficient and global focus in this area is expected to continue. Countries such as China are actively seeking to increase their electric vehicle fleet and look for oil alternatives to decrease their reliance on oil.

## 8. Valuation approach

### Basis of evaluation

8.1 The valuation of Target Energy prior to and post the Proposed Transaction has been prepared on the basis of Fair Market Value being the value that should be agreed in a hypothetical transaction between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, acting at arm's length.

### Valuation methodologies

8.2 In assessing the Fair Market Value of an ordinary Target Energy Share prior to and immediately following the Proposed Transaction, we have considered a range of valuation methodologies. RG 111 proposes that it is generally appropriate for an expert to consider using the following methodologies:

- the discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets;
- the application of earnings multiples to the estimated future maintainable earnings or cash flows added to the estimated realisable value of any surplus assets;
- the amount which would be available for distribution on an orderly realisation of assets;
- the quoted price for listed securities; and
- any recent genuine offers received.

8.3 We consider that the valuation methodologies proposed by RG 111 can be split into three valuation methodology categories, as follows.

#### *Market based methods*

8.4 Market based methods estimate the Fair Value by considering the market value of a company's securities or the market value of comparable companies. Market based methods include;

- the quoted price for listed securities; and
- industry specific methods.

8.5 The recent quoted price for listed securities method provides evidence of the fair market value of a company's securities where they are publicly traded in an informed and liquid market.

8.6 Industry specific methods usually involve the use of industry rules of thumb to estimate the fair market value of a company and its securities. Generally, rules of thumb provide less persuasive evidence of the fair market value of a company than other market based valuation methods because they may not account for company specific risks and factors.

#### *Income based methods*

8.7 Income based methods estimate value by calculating the present value of a company's estimated future stream of earnings or cash flows. Income based methods include:

- discounted cash flow;
- capitalisation of future maintainable earnings.

- 8.8 The DCF technique has a strong theoretical basis, valuing a business on the net present value of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value or the terminal value of the company's cash flows at the end of the forecast period. This method of valuation is appropriate when valuing companies where future cash flow projections can be made with a reasonable degree of confidence.
- 8.9 The capitalisation of future maintainable earnings is generally considered a short form DCF, where an estimation of the Future Maintainable Earnings ("FME") of the business, rather than a stream of cash flows is capitalised based on an appropriate capitalisation multiple. Multiples are derived from the analysis of transactions involving comparable companies and the trading multiples of comparable companies.

#### *Asset based methods*

- 8.10 Asset based methodologies estimate the Fair Market Value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:
- orderly realisation of assets method;
  - liquidation of assets method; and
  - net assets on a going concern basis.
- 8.11 The value achievable in an orderly realisation of assets is estimated by determining the net realisable value of the assets of a company which would be distributed to security holders after payment of all liabilities, including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. This technique is particularly appropriate for businesses with relatively high asset values compared to earnings and cash flows.
- 8.12 The liquidation of assets method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a shorter time frame. The liquidation of assets method will result in a value that is lower than the orderly realisation of assets method and is appropriate for companies in financial distress or where a company is not valued on a going concern basis.
- 8.13 The net assets on a going concern method estimates the market values of the net assets of a company but unlike the orderly realisation of assets method it does not take into account realisation costs. Asset based methods are appropriate when companies are not profitable, a significant proportion of the company's assets are liquid, or for asset holding companies.

### **Selection of valuation methodologies**

#### **Valuation of a Target Energy Share pre the Proposed Transaction (control basis)**

- 8.14 In assessing the value of a Target Energy Share prior to the Proposed Transaction we have utilised the net assets on a going concern methodology which estimates the value of a Target Energy share by valuing the various assets and liabilities of the Company and aggregating the values.
- 8.15 Our primary valuation methodology has been derived using a sum of parts comprising:
- Discounted cash flow valuation of the Company's current well production at the Fairway Project;
  - Independent specialist valuation of the Company's undeveloped acreage at the Fairway Project; and
  - Other assets and liabilities of the Company.

- 8.16 We note that our sum of parts valuation is inclusive of a premium for control.
- 8.17 We have instructed Fluid Energy Pty Ltd (“Fluid”) to act as an independent specialist to provide key inputs to the DCF valuation of Target Energy’s future production from existing wells and to value the undeveloped acreage of Target Energy at the Fairway Project.
- 8.18 The Company is currently extracting sufficient oil and gas to maintain its acreage licences but is not undertaking further exploration or drilling of new wells. In the United States, acreage is only held if there is continuous production of hydrocarbons and royalties are being paid to the landholders. Target Energy’s current production comes from vertical wells, however the Company has identified several locations which it considers could be drilled as horizontal wells to improve production by a greater amount than is capable in the vertical wells. Fluid has valued the undeveloped acreage held by Target Energy based on predictions of the potential outcome of such horizontal wells.
- 8.19 Fluid adopted a comparable transactions methodology in determining a range of values for the undeveloped acreage. This methodology was adopted as no comparable farm-in deals were identified and no forward budgets or other committed costs exist for the undeveloped acreage. Fluid identified five acreage purchases in the surrounding area and adjusted the comparable data to remove the value of future production from existing wells in the transactions, resulting in a per acre value. Fluid also adjusted the comparable data to reflect the predicted well performance in differing quality acreage.
- 8.20 We have also utilised the quoted market price methodology as a secondary valuation methodology.
- 8.21 Our valuation methodologies were selected on the following basis:
- The Company is loss-making and therefore a capitalisation of earnings methodology is not appropriate;
  - Target Energy has reduced production to preserve cash and therefore the properties are not currently being fully exploited, with uncertainty as to when other wells would be developed; and
  - Cash flow forecasts for the potential horizontal wells have not been prepared to such a degree that would provide reasonable grounds for a DCF valuation.
- 8.22 We have reflected the value of a Target Energy share pre the proposed Transaction on a pre and post consolidation basis to allow comparison with the assessed value after the Proposed Transaction.

#### **Valuation of a Target Energy Share post the Proposed Transaction (non-control basis)**

- 8.23 In assessing the value of Target Energy post the Proposed Transaction, we have used the pre Proposed Transaction value and included the impact of the Proposed Transaction assuming it proceeds. In particular, we have made the following adjustments:
- Removed the value of the Fairway Project to reflect its disposal;
  - Adjusted the carrying value of debt to reflect the Debt Restructure;
  - Adjusted the number of shares on issue to reflect the Proposed Transaction; and
  - Included the net cash proceeds and new shares issued in the Capital Raising.
- 8.24 We have then assessed the value of a Target Energy Share post the Proposed Transaction on a non-controlling basis by adjusting for a minority discount.

## 9. Valuation of Target Energy Limited Pre Proposed Transaction

9.1 As stated at paragraph 8.14 we have assessed the value of a Target Energy Share prior to the Proposed Transaction on a sum of parts basis and have also considered the quoted price of its listed securities. In both valuations, we have included a premium for control.

### Sum of parts valuation

9.2 We have assessed the value of a Target Energy Share on a control basis to be between \$nil and \$0.001 per Share (undiluted and pre-consolidation) prior to the Proposed Transaction, and between \$nil and \$0.020 on a post-consolidation basis with a preferred value of \$nil using the sum of parts valuation methodology, as summarised in the table below.

**Table 9 Assessed Fair Value of a Target Energy Share**

\$'000's	Ref	Unaudited 30-Jun-18	Low	High	Preferred
Net Working Capital	9.5	(605)	(605)	(605)	(605)
Plant and equipment		-	-	-	-
Fairway Project (net of rehabilitation provision)	9.7	673	7,811	14,501	12,452
Net debt	9.30	(13,239)	(13,239)	(13,239)	(13,239)
<b>Net assets (control basis)</b>		<b>(13,171)</b>	<b>(6,032)</b>	<b>657</b>	<b>(1,392)</b>
Number of Shares on issue pre Proposed Transaction	3.18		1,289,006,428	1,289,006,428	1,289,006,428
Number of shares on issue post-consolidation (40:1)	3.18		32,225,161	32,225,161	32,225,161
<b>Value per Share - pre-consolidation</b>			-	<b>0.001</b>	-
<b>Value per Share - post-consolidation</b>			-	<b>0.020</b>	-

Source: RSM Analysis

9.3 Under our preferred valuation assessment, the Company has net liabilities of \$1.39 million and therefore the shares have a value of \$nil.

9.4 Our assessment has been based on the unaudited net liabilities of the Company as at 30 June 2018 of approximately \$13.17 million as disclosed in the Company's management accounts.

9.5 Net working capital as at 30 June 2018 is calculated as trade receivables less trade payables, accrued expenses and employee entitlement provisions as shown in the table below. Accrued interest on borrowings has been disclosed in the net debt category as the settlement of these amounts forms part of the Proposed Transaction.

**Table 10 Net Working Capital at 30 June 2018**

\$'000s	30-Jun-18 Unaudited
Trade and other receivables	90
Trade and other payables	(93)
Accrued expenses	(80)
Accrued Directors fees	(319)
Current provisions	(129)
<b>Net working capital</b>	<b>(605)</b>

Source: Company Management Accounts

9.6 In order to calculate the current market value of Target Energy's Shares, we have made a number of adjustments to the carrying value of Target Energy's Fairway Project included in the Statement of Financial Position. These adjustments are set out below.

### Fairway Project

9.7 The Fairway Project of Target Energy has been valued between \$7.8 million and \$14.6 million, with a preferred valuation of \$12.5 million, as set out in the table below:

**Table 11 Assessed Value of Fairway Project**

\$000's	Ref	Low	High	Preferred
<b>Value of Fairway Project</b>				
DCF valuation of existing production	9.8	531	781	653
Rehabilitation provision	9.27	(232)	(232)	(232)
Value of undeveloped acreage	9.28	7,513	13,952	12,031
<b>Fairway Project</b>		<b>7,811</b>	<b>14,501</b>	<b>12,452</b>

Source: RSM and Fluid Energy

9.8 We have undertaken a discounted cash flow valuation of the production from existing wells at the Fairway Project. The DCF method estimates fair market value by discounting a project's future cash flows to their present value.

9.9 Fluid has provided the key inputs for oil and gas production volumes, operating costs and capital expenditure for each well in active production at the date of this report. The projections cover the period from 1 July 2018 to 31 March 2029.

#### Future cash flows

9.10 We have prepared cash flow projections based on the technical inputs provided by Fluid for the operational aspects of the existing wells, and our adopted economic assumptions detailed below.

#### Oil and gas prices

9.11 In estimating the appropriate sale prices for the crude oil and natural gas produced by the Fairway Project, we have had regard to the following:

- Consensus analysis price forecasts sourced from Consensus Economics; and
- Other publicly available industry estimates and commentary such as broker estimates and industry research.

9.12 Based on our analysis, we have adopted the following commodity prices, on a nominal basis:

**Table 12 Commodity prices**

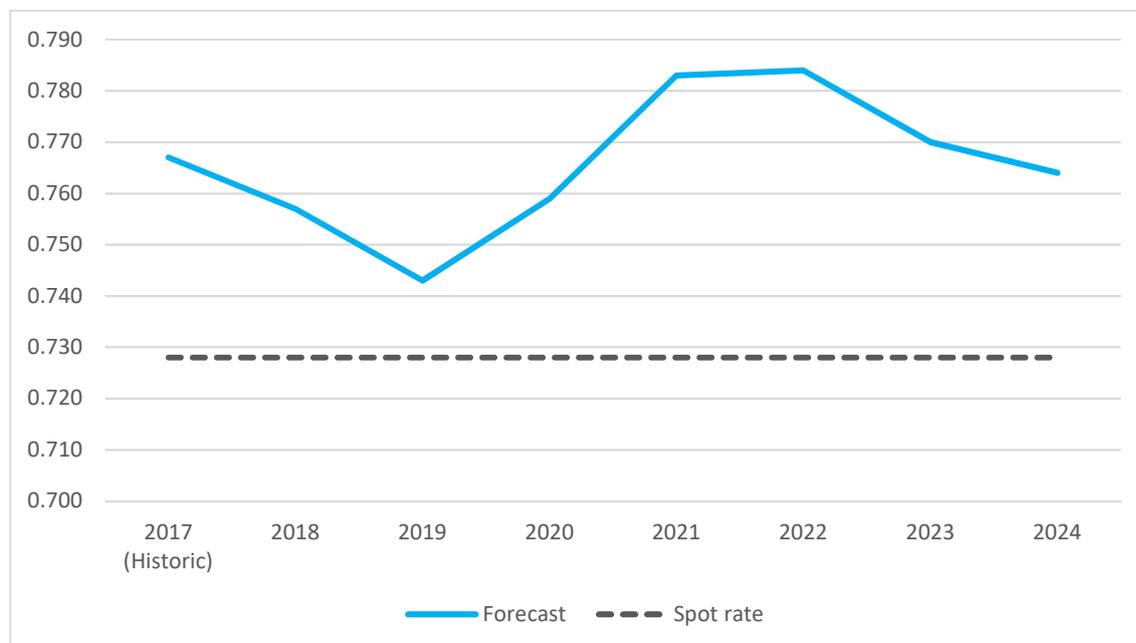
US\$		Spot 16-Jul-18	FY2019	FY2020	FY2021	FY2022	FY2023	Long Term
Crude oil	US\$/BBI	68.19	68.54	66.89	65.95	64.01	64.09	68.64
Natural gas	US\$/MCF	2.84	3.11	3.22	3.31	3.40	3.49	3.57

Source: Consensus Economics

### Foreign Exchange

9.13 The underlying cash flows for the existing wells are denominated in US Dollars (“USD”). The USD cash flows are translated in Australian Dollar (AUD) cash flows to calculate an AUD based valuation. We have adopted the following nominal USD:AUD foreign exchange rate assumptions for the DCF:

**Figure 3 Foreign Exchange**



Source: Consensus Economics

9.14 We have based our analysis on consideration of the following:

- Historical and current USD:AUD exchange rates;
- Forecast USD:AUD exchange rates; and
- Other publicly available information.

### Inflation

9.15 We have applied US Inflation rate forecasts quoted by the US Federal Reserve to the operating expenses in the cash flows, as the sales and royalty payments are based on nominal commodity pricing. Our adopted rates are shown below:

**Table 13 Inflation**

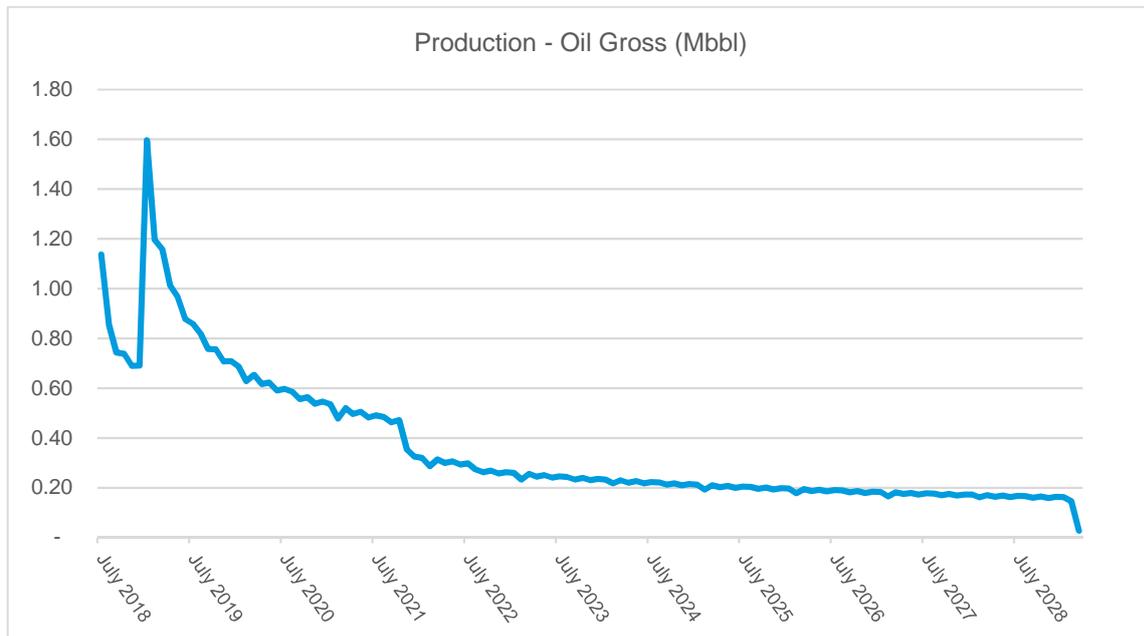
US Inflation	FY2019	FY2020	FY2021	FY2022	FY2023	Long Term
% per annum	2.6%	2.4%	2.0%	1.9%	1.9%	1.9%

Source: US Federal Reserve

### Revenue

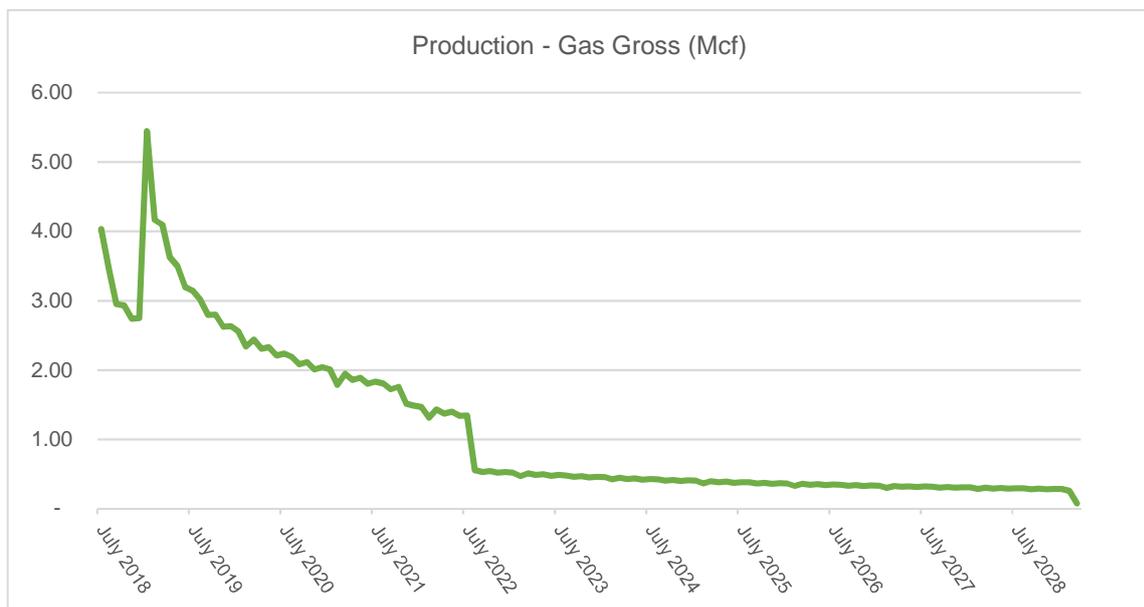
9.16 Revenue is a function of the quantity and price of crude oil and natural gas extracted from the wells. The figures below show the production profile for both resources over the forecast period; we have relied on the advice of Fluid with regard to the production assumptions in the cash flow model.

**Figure 4 Crude Oil Production Profile**



Source: Company and Fluid

**Figure 5 Crude Oil Production Profile**



Source: Company and Fluid

9.17 We note the following in relation to the figures above:

- According to the Company's production forecasts reviewed by Fluid, the existing wells in production are all expected to be exhausted by March 2029 without further fracture stimulation to re-establish production. The primary producing wells included in the projections are BOA North 5-5, Darwin 2 and 3, Sydney 1 and 2; and
- The forecast increase in production in 2019 is due to the recent fracture stimulation of Darwin-2 which is now awaiting the installation of a pump to become revenue-generating.

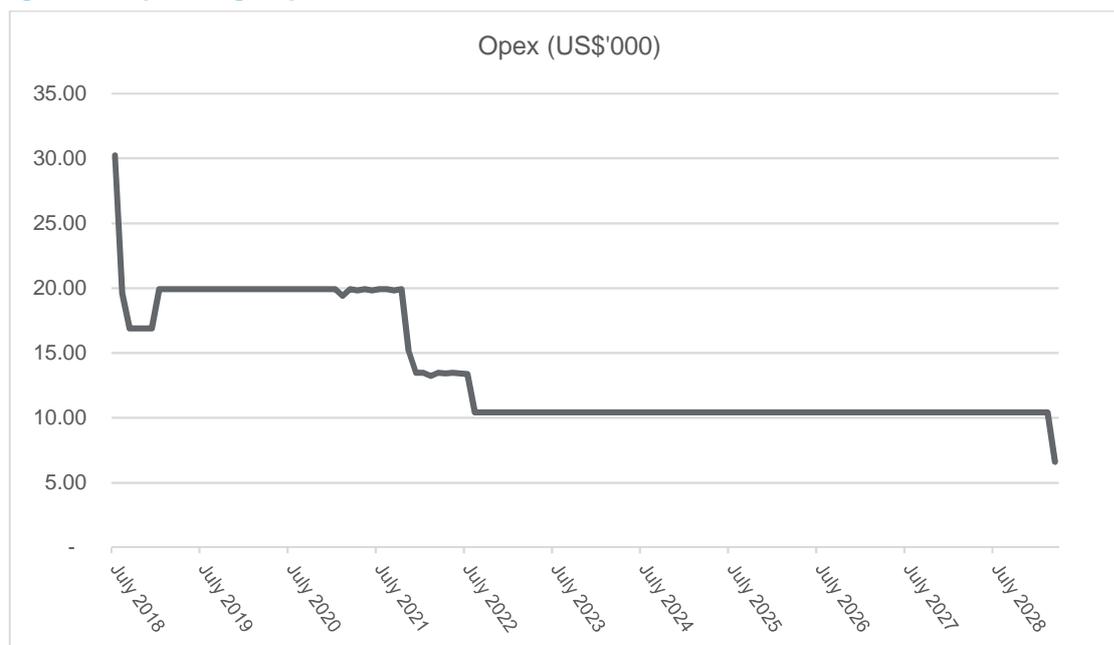
### Royalties

9.18 Royalties are payable at 25% of revenue on both oil and gas sales from the Fairway Project.

### Operating expenditure

9.19 Operating expenditure comprises all direct costs of operating the wells, including processing and direct taxes. The following figure sets out the projected monthly operating expenditure:

**Figure 6 Operating Expenditure Profile**



Source: Company and Fluid

9.20 We note the following in relation to the figure above:

- Operating costs step down with the cessation of production at 3 non-economical wells within the first two months of the forecast period and again with the cessation of BOA North-5 in 2021.

### Capital expenditure

9.21 As the cash flow projections are based only on the forecast production from existing wells, they therefore do not assume any additional fracture stimulation or drilling of new wells. The only capital expenditure in the projections is the estimated US\$90,000 expended on the fracture stimulation of Darwin-2 in July/August 2018.

### Other assumptions

9.22 In addition to the assumptions discussed above, we have also made the following assumptions:

- Rehabilitation expenditure is not included in the forecast cash flows, as advised by Fluid;
- Cash flows are modelled on a post-tax basis, incorporating an Australian corporate tax rate of 27.5%;
- Cash flows have been adjusted for working capital movements based on the expected sales terms;
- The Project would be curtailed when all wells become uneconomical based on the projections; and
- Target Energy's working interest in each lease have been incorporated into the cash flow projections.

#### *Discount rate*

- 9.23 The discount rate we have selected allows for both the time value of money and the risks attached to future cash flows. The applicable discount rate is the likely rate of return an acquirer of the Fairway Project current production wells would require for the risks inherent in investing in the asset.
- 9.24 We have utilised the weighted average cost of capital (“WACC”) as our discount rate, on a post-tax nominal basis. We have assessed the WACC to be in the range of 12.7% to 14.6% with a mid-point of 13.7%. Details of our assessment of the preferred range for the WACC are included in Appendix C.

#### *Sensitivity analysis*

- 9.25 We have undertaken sensitivity analysis based on the following low and high case variables, as advised by Fluid:
- Low = production down 5%, operating costs up 5% and capital expenditure up 10%.
  - High = production up 5%, operating costs down 5% and capital expenditure down 10%.
- 9.26 Based on our analysis, we have selected a value for Target Energy’s interest in the existing production from the Fairway Project in the range of \$531,000 to \$781,000 with a preferred value of \$653,000.

#### *Rehabilitation provision*

- 9.27 The costs associated with the rehabilitation provision recorded at 30 June 2018 of \$232,000 are not reflected in the DCF cash flows, therefore the provision has been included separately for valuation purposes.

#### *Undeveloped acreage*

- 9.28 In addition to determining the value of the existing well production, we engaged Fluid to undertake a valuation of the undeveloped acreage at the Fairway Project, being areas not yet exploited by wells and specifically, by horizontal wells. Fluid concluded that the value is in a range of US\$5.45 million to US\$10.11 million with a preferred value of US\$8.72 million based on an analysis of comparable transactions. We have translated this to AUD at a current exchange rate of 0.725.
- 9.29 The technical assessment and valuation report provided by Fluid on the Fairway Project is included at Appendix F.

#### *Net debt*

- 9.30 Net Debt as at 30 June 2018 comprises of borrowings, convertible notes, accrued interest and deferred director fees, less cash and cash equivalents.

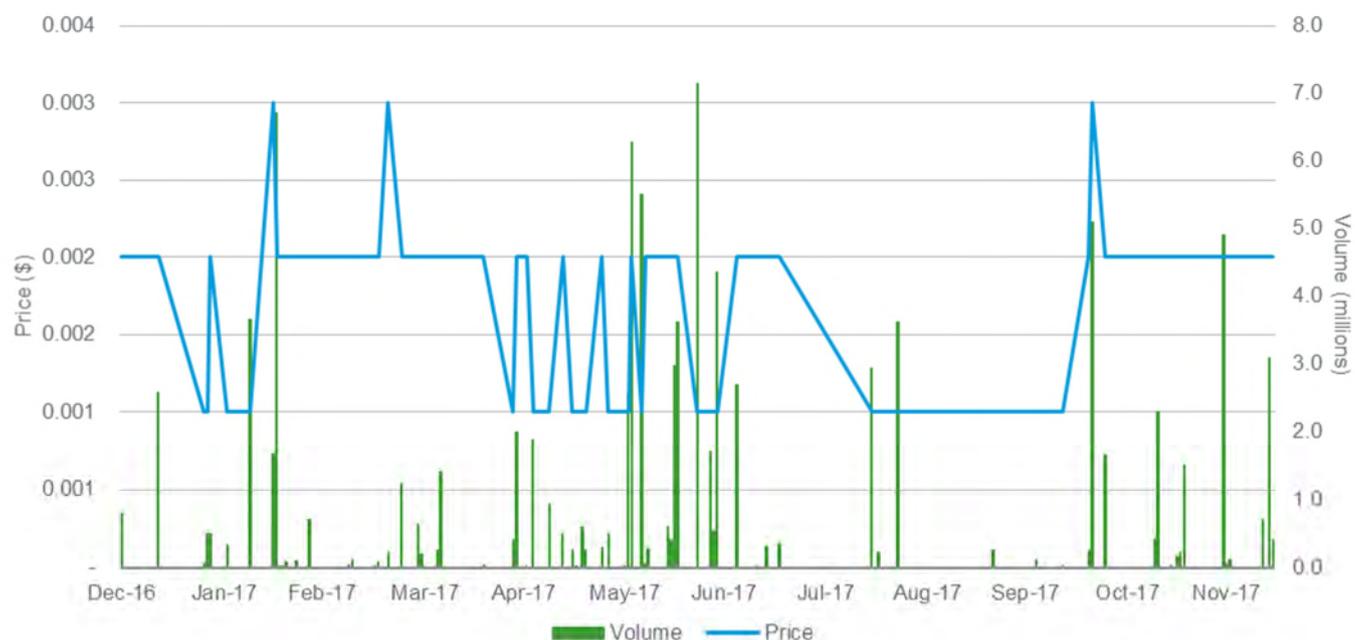
### **Quoted price of listed securities (secondary method)**

- 9.31 In order to provide a comparison and cross check to our sum of parts valuation of Target Energy, we have considered the recent quoted market price for Target Energy shares on the ASX prior to the announcement of the Proposed Transaction.
- 9.32 Unless stated, the analysis in this section is based on the capital structure of Target Energy.

#### **Analysis of recent trading in Target Energy Shares**

- 9.33 The figure below sets out a summary of the closing Share price and volume of Target Energy Shares traded in the 12 months prior to suspension from official quotation on the ASX on 14 December 2017.

**Figure 7 Target Energy daily closing Share price and traded volumes**



Source: S&P Capital IQ/ ASX

- 9.34 During the 12-month period prior to the suspension of official quotation on the ASX, Target Energy Shares traded between \$0.003 per Share and \$0.001 per Share.
- 9.35 To provide further analysis of the quoted market prices for Target Energy's Shares, we have considered the VWAP over a number of trading day periods ending 14 December 2017, being the last day the Company's securities were traded before suspension from official quotation. An analysis of the volume in trading in Target Energy's Shares for the 1, 10, 30, 60, 90, 180 and 360 day trading periods is set out in the table below:

**Table 14 Traded volumes of Target Energy Shares to 14 December 2017**

# of Days	1 Day	5 Day	10 Day	30 Day	60 Day	90 Day	120 Day	180 Day
VWAP	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.002
Total volume (000's)	405.0	4,182.1	4,302.1	13,826.5	20,960.3	27,944.6	31,281.8	76,444.7
Total volume as a % of total shares	0.03%	0.32%	0.33%	1.07%	1.63%	2.17%	2.43%	5.93%
Low price	0.002	0.002	0.002	0.002	0.001	0.001	0.001	0.001
High price	0.002	0.002	0.002	0.002	0.003	0.003	0.003	0.003

Source: S&P Capital IQ/ ASX

### Value of Target Energy Share on a non-control minority basis

- 9.36 As shown above, the weighted average share price of Target Energy is constant at \$0.002 over the period reviewed and therefore we consider that \$0.002 reflects the quoted market price valuation of a Target Energy Share on a minority basis prior to the Proposed Transaction.

### Value of Target Energy Share on a control basis

- 9.37 Our valuation of a Target Energy Share, on the basis of the recent quoted market price including a premium for control is \$0.003 on a pre-consolidation basis, as summarised in the table below.

**Table 15 Assessed value of a Target Energy Share – quoted price of listed securities (pre-consolidation)**

\$	Ref	Low	High	Preferred
Quoted market price		0.002	0.002	0.002
Premium for control (25% to 35%)		25%	35%	30%
<b>Quoted market price - controlling value</b>		<b>0.003</b>	<b>0.003</b>	<b>0.003</b>

Source: RSM Analysis

## Key assumptions

### *Control premium*

- 9.38 The value derived at paragraph 9.37 is indicative of the value of a marketable parcel of shares assuming a shareholder does not have control of Target Energy. RG 111.11 states that when considering the value of a company's shares the expert should consider a premium for control. If the Proposed Transaction is successful, InvestMet Shareholders will hold an interest of 45% in the issued capital of Target Energy. Therefore, our assessment of the Fair Value of a Target Energy Share must include a premium for control.
- 9.39 RSM has conducted a study on 463 takeovers and schemes of arrangements involving companies listed on the ASX over the 11 years ended 30 June 2016. In determining the control premium, we compared the offer price to the closing trading price of the target company 20, 5 and 2 trading days pre the date of the announcement of the offer. Where the consideration included shares in the acquiring company, we used the closing share price of the acquiring company on the date prior to the date of the offer. Our study showed that the average control premium for listed companies in the energy sector was in the range of 25% to 25%.
- 9.40 In valuing an ordinary Target Energy Share prior to the Proposed Transaction using the quoted price of listed securities methodology we have therefore reflected a premium for control between 25% to 35%.

## Valuation summary and conclusion

- 9.41 In our opinion, we consider that the sum of parts valuation methodology provides a better indicator of the Fair Value of a Target Energy Share as the Company's shares have been in a trading halt since December 2017 and showed a low level of liquidity prior to that. We therefore consider that the market for Target Energy's Shares is not deep enough to provide an assessment of their Fair Value via the quoted market price methodology.
- 9.42 Therefore, in our opinion, the Fair Value of a Target Energy Share prior to the Proposed Transaction is between \$nil and \$0.02 on an undiluted, post-consolidation basis with a preferred value of \$nil.
- 9.43 We note that the value range for a Target Energy share prior to the Proposed Transaction is wide. This is primarily due to the assessed range of values for the undeveloped acreage at the Company's Fairway Project, as advised by Fluid, reflecting the risk and uncertainty of prospective horizontal well performance at the Fairway Project. To date, the Company has only drilled vertical wells at the Fairway Project and therefore the financial return from the proposed horizontal wells is unknown. The assessed value range is based on Fluid's review of other projects and comparable transactions, due to the limitations of available Company data.

## 10. Valuation of Target Energy Limited – Post Proposed Transaction

10.1 We summarise our valuation of a Target Energy Share after the Proposed Transaction we have used the pre Proposed Transaction value and included the impact of the Proposed Transaction, assuming it proceeds, as set out in the table below.

**Table 16 Assessed value of Target Energy post the Proposed Transaction**

\$000's	Ref	Low	High	Preferred
Value of Target pre Proposed Transaction	9.2	(6,032)	657	(1,392)
Less: Fairway Project	9.7	(7,811)	(14,501)	(12,452)
Plus: Debts restructured	10.5	13,434	13,434	13,434
Plus: Cash from Capital Raising	10.6	450	450	450
Plus: Assignment of debt to Fairway Energy	10.7	370	370	370
<b>Net assets (control basis)</b>		<b>410</b>	<b>410</b>	<b>410</b>
Discount for minority interest (20% to 26%)	10.9	(107)	(82)	(94)
<b>Net assets (minority basis)</b>		<b>304</b>	<b>328</b>	<b>316</b>
Number of Shares on issue post Proposed Transaction	10.8	139,046,720	139,046,720	139,046,720
<b>Value per Share</b>		<b>0.002</b>	<b>0.002</b>	<b>0.002</b>

Source: RSM Analysis

10.2 We consider that the minority value of a Target Energy Share post the Proposed Transaction is \$0.002 on an undiluted and post-consolidation basis.

10.3 We have adjusted the net asset value and shares on issue of Target Energy for the following:

### *Disposal of Fairway Project*

10.4 Under the terms of the Disposal Agreement, 100% of Target Energy's interest in the Fairway Project will be disposed.

### *Debts Settled following the Proposed Transaction*

10.5 Following completion of the Proposed Transaction, outstanding debts of \$13.4 million payable by the Company will be eliminated or assigned as shown in the Proforma Balance Sheet at [Table 7](#).

### *Funds raised from Capital Raising*

10.6 We have included the total funds proposed to be raised in the Capital Raising, net of estimated costs of approximately \$0.05 million.

### *Assignment of debt to Fairway Energy*

10.7 As detailed in paragraph 3.14, as part of the Proposed Transaction Fairway Energy has agreed to record a loan of \$0.37 million payable to the Company relating to Fairway Funding and leave entitlements of the Managing Director.

*Number of Shares on issue post Proposed Transaction*

- 10.8 Following completion of the Proposed Transaction, a total of 139,046,720 shares are expected to be on issue in the Company, as shown in Table 2.

*Minority interest discount*

- 10.9 In selecting a minority discount, we have given consideration to our control premium applied in paragraph 9.40, where we established a range for a control premium of between 25% and 35%. The resulting corresponding minority discount range based on said control premiums is between 20% and 26%.

## 11. Is the Proposed Transaction Fair?

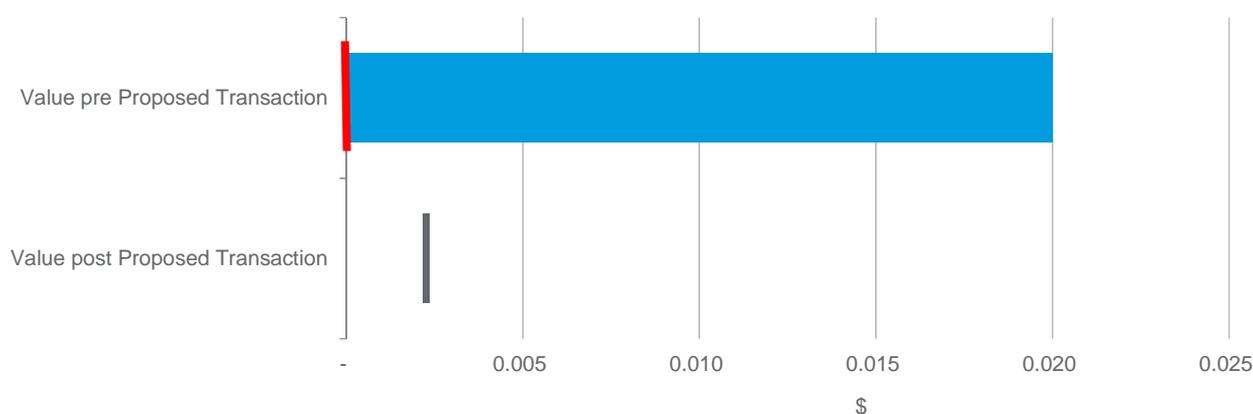
11.1 Our assessed values of a Target Energy Share prior to and immediately after the Proposed Transaction, are summarised in the table and figure below.

**Table 17 Assessed values of a Target Energy Share pre and post the Proposed Transaction**

Assessment of fairness	Ref	Value per Share		
		Low \$	High \$	Preferred \$
Fair value of a Target Energy Share pre the Proposed Transaction - Control basis	9.2	Nil	0.02	Nil
Fair value of a Target Energy Share post the Proposed Transaction - Non control basis	10.2	0.002	0.002	0.002

Source: RSM analysis

**Figure 8 Target Energy Share valuation graphical representation**



Source: RSM Analysis

11.2 The chart above indicates that the assessed undiluted value post the Proposed Transaction falls within the range of undiluted values prior to the Proposed Transaction (on a post-consolidation basis). When considering the preferred values, the assessed fair value of a Target Energy share post the Proposed Transaction of \$0.002 is greater than the assessed fair value of a share pre the Proposed Transaction of \$nil, on a post-consolidation basis.

11.3 The range of assessed values of a Target Energy share prior to the Proposed Transaction is wide as a result of the low and high values attributed to the undeveloped acreage at the Fairway Project by Fluid. We note that our assessment of the value of Target Energy using the preferred values attributed to the Fairway Project results in a net liability position of \$1.39 million and therefore a preferred value per share of \$mil.

11.4 In accordance with the guidance set out in ASIC RG 111, and in the absence of any other relevant information, for the purposes of Section 611, Item 7 of the Act, we consider the Proposed Transaction to be **fair** to the Non-Associated Shareholders of Target Energy. We have reached this conclusion based on the analysis of pre and post Proposed Transaction values, specifically the preferred values.

## 12. Is the Proposed Transaction Reasonable to Shareholders?

12.1 RG111 establishes that an offer is reasonable if it is fair. If an offer is not fair it may still be reasonable after considering the specific circumstances applicable to the offer. In our assessment of the reasonableness of the Proposed Transaction, we have given consideration to:

- The future prospects of Target Energy if the Proposed Transaction does not proceed; and
- Other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding.

### Future prospects of Target Energy if the Proposed Transaction does not proceed

12.2 If the Proposed Transaction does not proceed the Company will continue to manage its existing assets, including the Fairway Project, and look for further opportunities including an alternative divestment of the Fairway Project.

12.3 The majority of the Company's existing debt was due to become payable on 30 September 2018 but has been extended to 31 December 2018. The Company's ability to continue trading as a going concern will depend on its ability to restructure its debt, obtain short term financing or raise funds through the sale of assets or capital raising in order to meet its debt obligations.

12.4 There is no guarantee that the Company would be able to secure additional funding or debt financing on favourable terms and therefore the future of the Company is uncertain if the Proposed Transaction does not proceed, and the Company may consider a potential option of appointing voluntary administrators. The Board considers it likely that there would be no return to Shareholders in such circumstances.

### Practical Level of Control

12.5 If the Proposed Transaction is approved, then InvestMet and its associates will hold a 45% interest in Target Energy. Shareholder approval requirements for special resolutions are 75% of shares on issue to be voted in favour to approve a matter. Therefore, if the Proposed Transaction is approved, InvestMet can block all special resolutions of the Company.

12.6 InvestMet's level of control of Target Energy following the Proposed Transaction will be significant when compared to other shareholders and therefore it will be able to significantly influence the activities of the Company.

### Advantages and disadvantages

12.7 In assessing whether the Non-Associated Shareholders are likely to be better off if the Proposed Transaction proceed, than if it does not, we have also considered various advantages and disadvantages that are likely to accrue to the Non-Associated Shareholders.

### Advantages of approving the Proposed Transaction

Advantage	Details
It is fair	If a transaction is fair, then it is also considered to be reasonable.
Settlement of existing debts of the Company	The Proposed Transaction will eliminate all current debts of Target Energy, including the Convertible Notes with a face value of \$8.75 million and accrued interest of \$1.68 million, along with other loans and outstanding directors fees. The Company does not currently have the capacity to repay these debts without additional capital raising or asset disposals.

Reduce ongoing costs of the Company	The Proposed Transaction will eliminate future costs in respect of the Fairway Project, resulting in a lower ongoing cash requirement for operating costs and capital expenditure of the Company. Tenure of the Fairway Project leases is dependent on continuous production of hydrocarbons from one or more wells, if production ceases then the licence may be revoked, resulting in an ongoing expenditure requirement of the holder for operations and fracture stimulation of wells.
Allows pursuit of alternative investments	The Proposed Transaction will enable the Company to consider alternative asset acquisitions in order to add value to Shareholders and potentially move towards achieving reinstatement to the official list of the ASX (subject to re-compliance with the ASX Listing Rules and associated approvals).
Realises value for the Fairway Project	The Company initiated a disposal strategy for the Fairway Project in 2016 but was unable to secure a divestment due to market conditions. The Proposed Transaction provides Shareholders with an immediate realisation of value for the project.

## Disadvantages of approving the Proposed Transaction

Disadvantage	Details
Dilution of Non-Associated Shareholders and increase in InvestMet interests	InvestMet and its associates will own approximately 45% of Shares on issue in the Company upon Settlement of the Proposed Transaction, an increase from the current share-holding of 11%. The interest of existing Non-Associated Shareholders will reduce from 89% to 47% (excluding shares issued under the Capital Raising). An interest of 45% provides InvestMet with significant influence over matters that require approval by shareholders and the ability to block Special Resolutions of the Company.
No participation in future benefits of the Fairway Project	The Company (and Non-Associated Shareholders) will not be able to participate in or derive any future benefits from the Fairway Project (other than through repayment of the Fairway Loan or settlement under the Trilogy Legal Action).
Change in investment profile	The Proposed Transaction involves the Company selling its main asset, which may not be consistent with the investment objectives of all Shareholders.
No guarantee of re-instatement to ASX trading	The Company's shares are currently suspended. Target Energy will be required to satisfy ASX requirements in order to be reinstated to the official list which the Proposed Transaction does not fulfil. There is a risk the Company may not be able to locate and complete the acquisition of other suitable investment opportunities within a reasonable time, which may result in the Company being delisted if the ASX considers that the Company does not have suitable operations to justify a listing on ASX.

## Alternative proposal

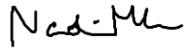
- 12.8 We are not aware of any alternative proposal at the current time which might offer the Non-Associated Shareholders of Target Energy a greater benefit than the Proposed Transaction.

## Conclusion on Reasonableness

- 12.9 In our opinion, the position of the Non-Associated Shareholders if the Proposed Transaction is approved is more advantageous than the position if it is not approved. Therefore, in the absence of any other relevant information or a superior offer, we consider that the Proposed Transaction is **reasonable** for the Non-Associated Shareholders of Target Energy.
- 12.10 An individual Shareholder's decision in relation to the Proposed Transaction may be influenced by his or her individual circumstances. If in doubt, Shareholders should consult an independent advisor.

Yours faithfully

**RSM CORPORATE AUSTRALIA PTY LTD**

A handwritten signature in black ink, appearing to read "N. Marke".

**N MARKE**

Director

A handwritten signature in blue ink, appearing to read "G. Yates".

**G YATES**

Director



## APPENDICES

## A. DECLARATIONS AND DISCLAIMERS

### Declarations and Disclosures

RSM Corporate Australia Pty Ltd holds Australian Financial Services Licence 255847 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

### Qualifications

Our report has been prepared in accordance with professional standard APES 225 “Valuation Services” issued by the Accounting Professional & Ethical Standards Board.

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia Pty Ltd (RSM) a large national firm of chartered accountants and business advisors.

Ms Nadine Marke and Mr Glyn Yates are directors of RSM Corporate Australia Pty Ltd. Both Ms Marke and Mr Yates are Chartered Accountants with extensive experience in the field of corporate valuations and the provision of independent expert's reports for transactions involving publicly listed and unlisted companies in Australia.

### Reliance on this Report

This report has been prepared solely for the purpose of assisting Shareholders of the Company in considering the Proposed Transaction. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose.

### Reliance on Information

Statements and opinions contained in this report are given in good faith. In the preparation of this report, we have relied upon information provided by the Directors and management of Target Energy Limited and we have no reason to believe that this information was inaccurate, misleading or incomplete. RSM Corporate Australia Pty Ltd does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

The opinion of RSM Corporate Australia Pty Ltd is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

In addition, we have considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

We assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information supplied to us.

### Disclosure of Interest

At the date of this report, none of RSM Corporate Australia Pty Ltd, RSM, Nadine Marke, Glyn Yates, nor any other member, director, partner or employee of RSM Corporate Australia Pty Ltd and RSM has any interest in the outcome of the Proposed Transaction, except that RSM Corporate Australia Pty Ltd are expected to receive a fee of approximately \$30,000 based on time occupied at normal professional rates for the preparation of this report. The fees are payable regardless of Target Energy Limited receives Shareholder approval for the Proposed Transaction, or otherwise.

### Consents

RSM Corporate Australia Pty Ltd consents to the inclusion of this report in the form and context in which it is included with the Notice of Extraordinary General Meeting and Explanatory Memorandum to be issued to Shareholders. Other than this report, none of RSM Corporate Australia Pty Ltd or RSM Australia Pty Ltd or has been involved in the preparation of the Notice of Extraordinary General Meeting and Explanatory Memorandum. Accordingly, we take no responsibility for the content of the Notice of General Meeting and Explanatory Statement.

## B. SOURCES OF INFORMATION

In preparing this Report we have relied upon the following principal sources of information:

- Drafts and final copies of the Notice of Meeting;
- Memorandum of Understanding dated 7 September 2018;
- Audited financial statements for Target Energy for the years ended 30 June 2017 and 30 June 2016;
- Unaudited management accounts for Target Energy for the year ended 30 June 2018;
- Proforma balance sheet of Target Energy post Proposed Transaction;
- ASX announcements of Target Energy;
- S&P Capital IQ database;
- Consensus Economics; and
- Discussions with Directors, Management and staff of Target Energy.

## C. DISCOUNT RATE ASSESSMENT

When assessing an appropriate discount rate to use in a discounted cash flow valuation, due regard must be given to the rates of return available in the marketplace, the degree of risk attached to the business, shares or project and the required rate of return.

Businesses are normally funded by a mix of debt and equity. The Weighted Average Cost of Capital (“WACC”) is a widely used and accepted basis to calculate the “representative” rate of returns required by debt and equity investors. We have applied the WACC methodology to determine an appropriate discount rate to be used in assessing the fair value of cashflows of the Fairway Project.

The Capital Asset Pricing Model (“CAPM”) is the most frequently used model in determining the cost of equity of an investment or project and the required rate of return for debt funding is determined having regard to current borrowing costs and prevailing credit ratings. The cost of equity and cost of debt are weighted by the respective proportions of equity and debt funding to arrive at the WACC.

### WACC

The generally accepted WACC formula is the post-tax WACC as shown below:

$$WACC = \left[ R_e \times \frac{E}{V} \right] + \left[ R_d \times (1 - t_c) \times \frac{D}{V} \right]$$

Where:

$R_e$	=	Expected equity investment return or cost of equity
$R_d$	=	Interest rate on debt (pre-tax)
$t$	=	Corporate tax rate
$E$	=	Market value of equity
$D$	=	Market value of debt
$V$	=	Market value of debt plus equity

### CAPM

The CAPM is based on the theory that the prudent investor will price investments so that the expected return is equal to the risk-free rate of return plus a premium for risk. CAPM assumes that there is a positive relationship between risk and return; that is, investors are risk averse and therefore demand higher returns for accepting higher levels of risk.

The CAPM calculates the cost of equity through the following formula:

$$R_e = R_f + \beta(R_m - R_f) + \alpha$$

Where:

$R_e$	=	Required return on equity.
$R_f$	=	Risk free rate of return.
$E(R_m)$	=	Expected return on the market.
$E(R_m) - R_f$	=	Market risk premium
$\beta$	=	Beta
$\alpha$	=	Specific company risk premium

We have considered each component of the CAPM below.

### Risk free rate - $R_f$

We have assumed a risk-free rate of 2.90% being the yield on the 10-Year Australian Government Bond. We have used the 10-year bond rate as this is typically used as a proxy for the long-term risk-free rate.

### Market Risk Premium – $E(R_m) - R_f$

Market risk premium represents the level of return investors require over and above the risk-free rate in order to compensate them for the non-diversifiable risks associated with an investment in a market portfolio. Strictly speaking, the market risk premium is equal to the expected return from holding shares over and above the return from holding risk-free government securities.

Various empirical studies undertaken show that historical market risk premiums vary across markets; the US market is generally in line with the overall range of other developed countries but is slightly higher than the world average.

Having regard to this information, we have assumed a market risk premium of 6.0% in our determination of the discount rate.

### Beta - $\beta$

The beta coefficient measures the systematic risk of the company compared to the market as a whole. A beta of 1 indicates that the company's risk is comparable to that of the market.

The choice of a beta requires judgement and necessarily involves subjective assessment as observations of beta in comparable companies may be subject measurement issues and other variations. Accordingly, depending upon circumstance, a sector average, or a basket of comparable companies may present a more reliable beta, rather than relying on a single comparable company.

Beta can be expressed as an equity beta (which includes the effect of gearing on equity returns) or as an asset beta (where the impact of gearing is removed). The asset beta will be lower than the equity beta for any given investments, with the difference dependent upon the level of gearing in the capital structure.

The selection of an appropriate beta involves a degree of professional judgement, particularly where the performance drivers of the company being valued are not directly aligned with the most comparable listed companies.

The comparable company data included in the table below illustrates the observed beta coefficients for public listed companies we consider most comparable to Target Energy and the local market indices.

In assessing companies comparable to Target Energy, we have considered listed public companies globally with a principal focus in the extraction of oil and gas in the United States.

The ungeared equity betas for the companies selected ranged from a low of 0.84 to a high of 3.91, with a median of 1.34, as set out in the table below. We also note that the companies have an average beta of 1.43 for the local index.

We have therefore concluded on an unlevered beta range of between 1.30 and 1.45. The comparable companies below show 100% equity funding and we have assumed the same funding structure for the Fairway Project.

Company	Market cap. (US\$M)	5-year average D/E (%)	Local	
			5-year monthly beta	5-year monthly (unlevered)
<b>Target Energy Limited</b>	<b>1.9</b>	<b>0.0%</b>	<b>4.35</b>	<b>1.27</b>
Sundance Energy Australia Limited	388.1	0.0%	3.91	2.94
Freedom Oil and Gas Ltd	136.5	0.0%	1.47	1.47
Grand Gulf Energy Limited	2.2	0.0%	2.16	2.16
Winchester Energy Limited	4.8	0.0%	1.02	1.02
Petsec Energy Ltd	38.1	0.0%	1.34	1.28
Planet Gas Limited	1.2	0.0%	0.84	0.32
High Peak Royalties Limited	5.5	0.0%	0.85	0.85
<b>Min</b>	<b>1.2</b>	<b>0.0%</b>	<b>0.84</b>	<b>0.32</b>
<b>Average</b>	<b>82.3</b>	<b>0.0%</b>	<b>1.66</b>	<b>1.43</b>
<b>Median</b>	<b>5.5</b>	<b>0.0%</b>	<b>1.34</b>	<b>1.28</b>
<b>Max</b>	<b>388.1</b>	<b>0.0%</b>	<b>3.91</b>	<b>2.94</b>

Source: S&P Capital IQ and RSM analysis

We provide descriptions of the comparable companies in Appendix D below.

### Tax Rate

We have adopted 27.5% being the effective corporate tax rate for Australia.

### Company specific risk premium

We consider a specific company risk premium in the range of 2% to 3% to be necessary for the Fairway Project to capture the relevant risks of the project

### Cost of debt

We have assumed that the best capital structure to employ for the Fairway Project is 100% equity funding.

### WACC summary

We set out the detailed calculation of the WACC in the table below.

WACC	Min	Max
<b>Beta:</b>		
Unlevered Beta	1.300	1.450
Marginal Tax Rate	27.50%	27.50%
Target Capital Structure:		
Debt	0.00%	0.00%
Equity	100.00%	100.00%
D/E	0.00%	0.00%
<b>Levered Beta</b>	<b>1.300</b>	<b>1.450</b>
<b>Cost of Equity</b>		
Risk Free Rate	2.90%	2.90%
Market Risk Premium	6.00%	6.00%
Alpha (specific premium)	2.00%	3.00%
<b>Cost of Equity</b>	<b>12.7%</b>	<b>14.6%</b>
Calculated WACC	12.7%	14.6%
<b>Mid-point</b>	<b>13.7%</b>	

Source: S&P Capital IQ and RSM analysis

Based on the assumptions set out above, we have assessed the post-tax, nominal WACC to be in the range of 12.7% to 14.6% with a preferred discount rate of 13.7%.

## D. COMPARABLE COMPANIES

Company (ticker)	Company description
Sundance Energy Australia Limited (ASX:SEA)	Sundance Energy Australia Limited engages in the exploration, development, and production of oil and natural gas in the United States. The company's exploration and development activities are focused on the Eagle Ford project in the South-Texas-Gulf Coast Basin. Sundance Energy Australia Limited was incorporated in 2004 and is based in Wayville, Australia.
Freedom Oil and Gas Ltd (ASX:FDM)	Freedom Oil and Gas Ltd engages in the exploration and production of oil and gas in the United States. It holds a 100% interest in approximately 9,400 acres of undeveloped land located in the Eagle Ford shale play, South Texas. The company was formerly known as Maverick Drilling & Exploration Limited and changed its name to Freedom Oil and Gas Ltd in November 2016. Freedom Oil and Gas Ltd was founded in 2007 and is headquartered in Houston, Texas.
Grand Gulf Energy Limited (ASX:GGE)	Grand Gulf Energy Limited explores, evaluates, and produces oil and gas leases the United States. It owns a 39.6% working interest in the Desiree field on the Napoleonville Salt Dome; 55.5% working interest in the Dugas and Leblanc #3 well; 11.7% working interest in the West Klondike well; and 20% working interest in the Abita well in Louisiana. The company also owns a 50% working interest in the Pleasant Home field. The company was formerly known as Alto Energy International Limited and changed its name to Grand Gulf Energy Limited in June 2007. Grand Gulf Energy Limited is based in West Perth, Australia.
Winchester Energy Limited (ASX:WEL)	Winchester Energy Limited engages in the acquisition and exploration of oil and gas properties in the United States. As of December 31, 2017, it had 17,402 net acres within 6 leases located in the Eastern Shelf of the Permian Basin in Texas. The company was founded in 2014 and is based in West Perth, Australia.
Petsec Energy Ltd (ASX:PSA)	Petsec Energy Ltd operates as an independent oil and gas exploration and production company. It holds working interests in various projects located in the shallow waters of the Gulf of Mexico and onshore Louisiana, the United States, as well as the Middle East and North African region. The company was founded in 1967 and is based in Sydney, Australia.
Planet Gas Limited (ASX:PGS)	Planet Gas Limited, together with its subsidiaries, engages in the acquisition, exploration, and development of oil and gas properties in Australia and the United States. The company primarily holds interest in a conventional and unconventional hydrocarbon area covering 1,917 square kilometers located in the Cooper Basin of north eastern South Australia. It also has a 3% overriding royalty interest over oil and gas production assets in Kansas, Pennsylvania, and New York State. The company is based in Sydney, Australia.
High Peak Royalties Limited (ASX:HPR)	High Peak Royalties Limited engages in the acquisition of royalty and exploration interests in oil and gas assets in Australia and the United States. It has royalties over 23 oil and gas projects. The company is based in Sydney, Australia.

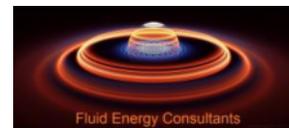
## E. GLOSSARY OF TERMS

Term or Abbreviation	Definition
\$	Australian dollar
Act	Corporations Act 2001 (Cth)
APES	Accounting Professional & Ethical Standards Board
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ASX Listing Rules	The listing rules of ASX as amended from time to time
BBL	Barrel (of oil)
Company	Target Energy Limited
Control basis	As assessment of the Fair Value on an equity interest, which assumes the holder or holders have control of the entity in which the equity is held
Directors	Directors of the Company
Explanatory Statement	The explanatory statement accompanying the Notice
Fair Value	The amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer, both acting at arm's length
Fairway Energy	Fairway Energy Limited
Fairway Project	The oil and gas project in the Permian Basis, Texas US, in which Target Energy has a working interest
FME	Future Maintainable Earnings
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
IER	This Independent Expert Report
InvestMet	InvestMet Pty Ltd
MBBL	Thousand barrels
MCF	Thousand cubic feet of natural gas
Non-Associated Shareholders	Shareholders who are not a party, or associated to a party, to the Proposed Transaction
Notice	The notice of meeting to vote on, inter alia, the Proposed Transaction
Opex	Operating expenditure
Option or Options	Unlisted options to acquire Shares with varying vesting conditions
Proposed Transaction	Resolutions 1 to 13 inclusive
Report	This Independent Expert's Report prepared by RSM dated 7 September 2018
Resolution	The resolutions set out in the Notice
RG 111	ASIC Regulatory Guide 111 Content of Expert Reports
RSM	RSM Corporate Australia Pty Ltd

<b>S&amp;P Capital IQ</b>	An entity of Standard and Poors which is a third party provider of company and other financial information
<b>Share or Target Energy Share</b>	Ordinary fully paid share in the capital of the Company
<b>Shareholder</b>	A holder of Share
<b>USD</b>	US dollar
<b>VALMIN Code</b>	Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets (2015)
<b>VWAP</b>	Volume weighted average share price

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## F. INDEPENDENT TECHNICAL ASSESSMENT AND VALUATION REPORT BY FLUID ENERGY



6 August 2018

RSM Corporate Australia Limited  
Level 32, Exchange Tower  
2 The Esplanade  
Perth, WA 6000  
Attn: Nadine Marke  
Director - Corporate Finance

Dear Ms Marke,

## **RE: Independent Expert Report on the Fairway Project**

### **1.0. INTRODUCTION**

In June 2018, RSM Corporate Australia Pty Ltd (RSM) was engaged by the directors of Target Energy Limited (TEL) to prepare an Independent Expert's Report (IER) in relation to the proposed disposal of the Fairway Project and debt restructure. RSM, in turn, has requested that FluidEnergy Consultants (Fluid) provide a technical assessment of the Fairway Project, Texas USA, including assumptions on the production profile, operating costs and capital expenditure of the Fairway Project, for inclusion in the RSM report.

TEL is a listed company on the Australian SecuritiesExchange (ASX) under the code TEX. TEL holds various working interest in several small areas as described below (Figure 1).

This report provides the inputs for RSM for a valuation of Target's production and undeveloped acreage in the Fairway Project.

### **2.0. SUMMARY**

The forward production curve for oil and gas and the associated CAPEX and OPEX costs have been provided to RSM underseparate cover.

RSM will assess the current production value of Target's holdings in the Fairway Project using a discounted cash flow methodology.

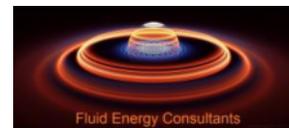
Fluid has provided in this report a valuation of the undeveloped acreage.

All currency is quoted in United States Dollars (US\$). The amounts quoted in this document are estimates only.

### **3.0. PERMIAN BASIN, ONSHORE TEXAS, USA**

The Permian Basin in West Texas is one of the most prolific hydrocarbon producing basins in the world. It covers about 194,250 square kilometers (75,000 square miles) in West Texas and southeast New Mexico.

The first well was drilled in 1921, in Mitchell County on the east side of the basin. Since then, the basin has produced approximately 29 billion barrels of oil and 75 trillion cubic feet of gas - yet it is



estimated by industry experts to contain recoverable oil and natural gas resources exceeding what has been produced over the last 90 years.

In 2010 and 2011, the Permian Basin produced more than 270 and 280 million barrels of oil respectively. In 2018, the Basin will produce in excess of 1.2 billion barrels of oil.

Some of that remaining oil is being produced through the application of secondary and tertiary recovery methods like water floods, steam floods or CO<sub>2</sub> floods, though an increasing proportion of it is being produced as the result of new technology that allows drillers to complete and produce wells at depths and in formations that previously eluded them.

The Permian Basin is made up of three component parts, the eastern Midland Basin, the Central Basin Platform and the western Delaware Basin (Figure 1). These Basins existed throughout the Carboniferous, Permian and Triassic periods.

The approximate location of Target's acreage is shown on Figure 1. It lies outside the Midland Basin on the Glasscock Nose, which is part of the Eastern Shelf.

The Midland Basin and the Delaware Basin were rapidly subsiding features that accumulated sediments, including black, organic-rich, deep-water materials that would become petroleum source rocks in later geologic time.

The Central Basin Platform remained relatively high in elevation and accumulated deposits of coarse-grained, shallow-water sediments and saw the development of small reefs which became good reservoirs for the hydrocarbons.

In the Midland Basin, during the Carboniferous Period and the early part of the Permian Period, eroded and broken rock were laid down as a thick, delta system that gradually filled the basin from east to west.

By the beginning of the Middle Permian Epoch, some 271 million years ago, the Midland Basin was nearly filled with sediments, while the Delaware Basin continued to be a deepwater environment.

Vast quantities of crude oil and natural gas, some of which Target Energy is now producing, have been generated in these organic rich basins.

Figure 2 shows the location of some of the major rock units or formations that contain hydrocarbons. One of the key productive units is the Spraberry Formation. This formation does not extend onto the Glasscock Nose and is not present in Target's Fairway Project leases.

These then are known as unconventional resources as they are not held in porous and permeable sandstones or carbonates as in conventional reservoirs, like the Howard Glasscock field, discovered in 1925, that lies between Target's acreage positions (Figure 3).

The combination of horizontal wells and multistage fracture stimulation has allowed the petroleum industry to extract the fluids from the unconventional reservoirs (tight source rocks) with good economic outcome, opening up a new round of productivity, creating new reserves of billions of barrels of oil and trillions of cubic feet of gas.

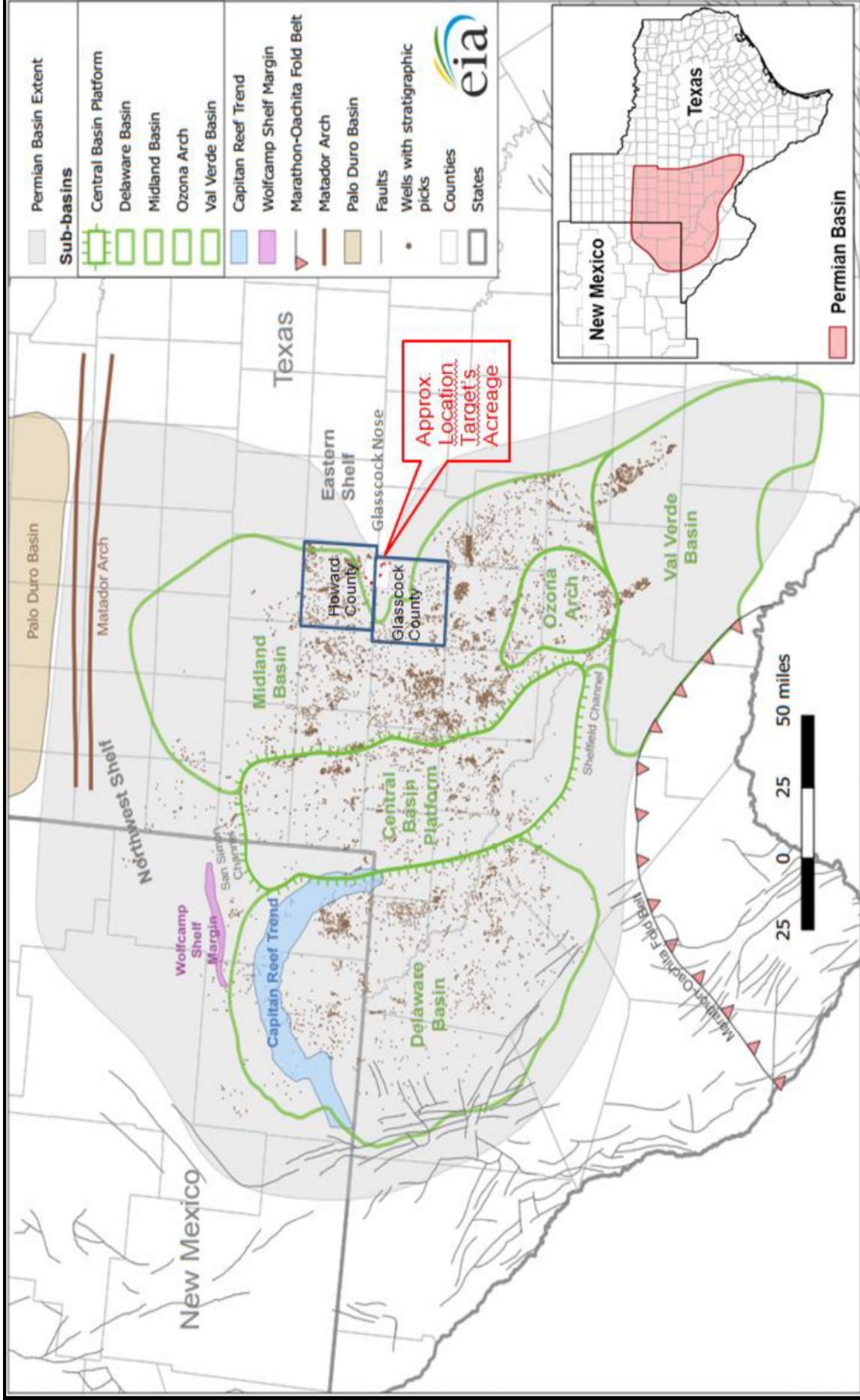
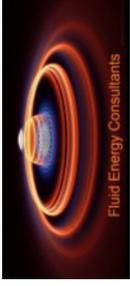


Figure 1 Major Structural Features of the Permian Basin

Fluid Energy Consultants is a trading name for FMB Holdings Pty Ltd ATF FMB Unit Trust (ABN 67 906 844 649)  
 Address: Level 8 of 46 Edward Street,  
 Brisbane, Qld 4000, Australia  
 Web: [www.fluidenergyconsultants.com.au](http://www.fluidenergyconsultants.com.au)

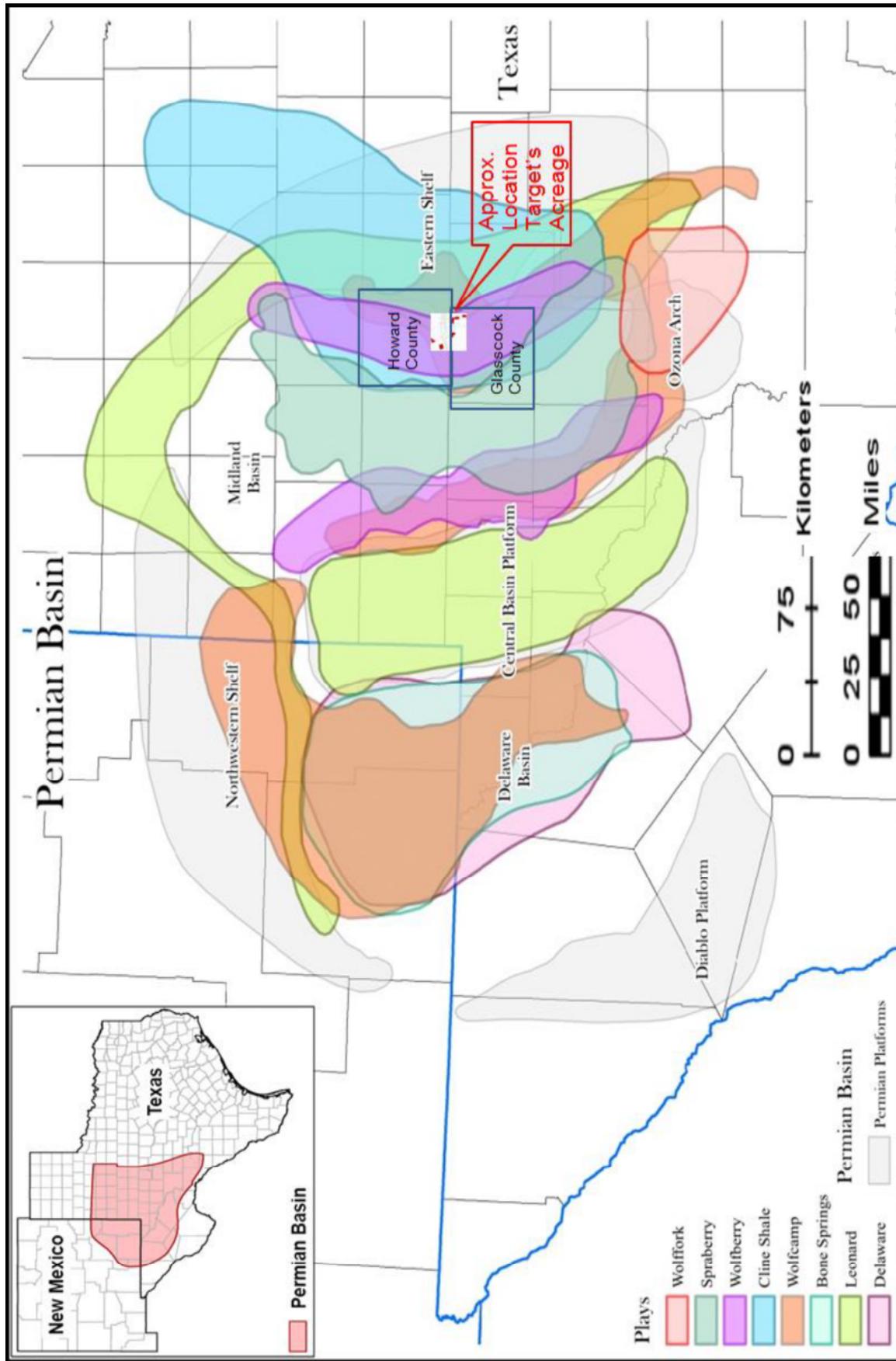
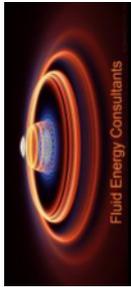


Figure 2: Major Unconventional Reservoir Formations

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**4.0. Acreage**

**4.1. Land Position**

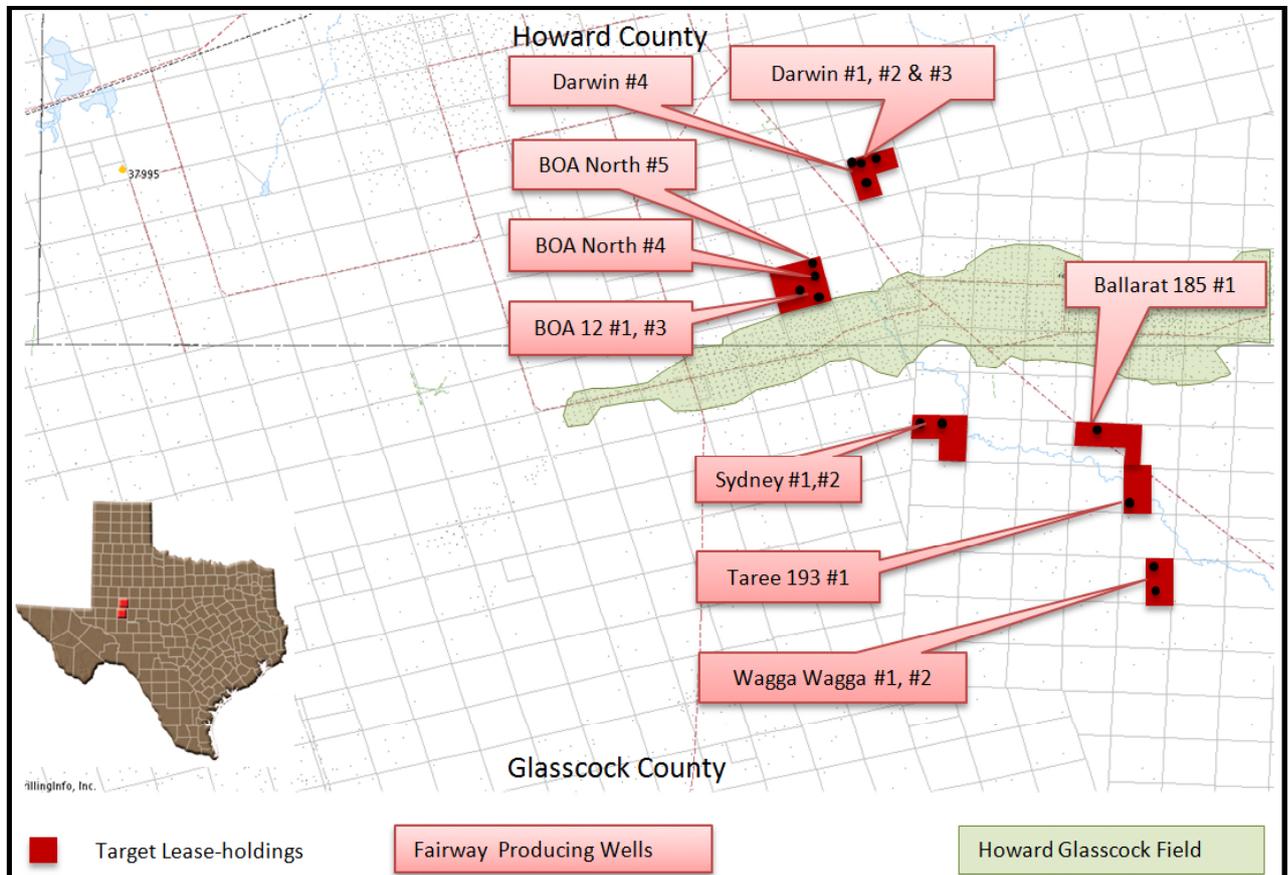
A map of Target's Fairway Project in the Midland Basin is shown in Figure 3.

Trilogy Operating Inc. of Midland, Texas is the operator of the leases.

Target's Fairway Project in the Permian Basin in West Texas consists of approximately 2,080 gross acres, held by production (net 1,011 acres to Target), with the Company holding working interests ranging from 33.75% to 60% (average 50.2%) (Table 1).

Gross production is about 97 bopd and 219 mscfd of gas, which equates to 130boepd with net production to Target of approximately 65boepd. The gas and oil ratio (GOR) is currently 3.35 mscf/barrel(73% oil).

Target believes that there are further horizontal well locations that could be drilled to improve the production.



**Figure 3: Leases in Which Target Holds and Interest**

The landholder system in the USA is completely different to the Australian system. In Australia, the Crown owns the mineral rights, where the onshore permits are administered by the various states. In the USA the landholder, or farmer in many cases, often also holds the mineral and petroleum rights. Typical oil and gas leases in these cases provide a limited time for the leaseholder to explore and/or drill (usually 3 years) after which the holding can be retained by ongoing hydrocarbon production and payment of royalties to the mineral owners. Dealing with private landholders is



considered preferable to dealing with state and federal governments in the USA due to less regulation and a more robust turnover of the available lands. Because of this situation, fields are often not fully covered by a single land position and a patchwork of many small leases arises. In the USA, Landmen are employed to manage the landholdings, negotiate and monitor surface use and joint operating agreements.

The land in the area is criss-crossed by bitumen roads and the acreage position is on near flat farming and ranching land. For this reason, access is relatively easy to obtain and there are minimal landholder issues

Often acreage is only held if there is continuous production of hydrocarbons from one or more wells. When production ceases, the licence may be revoked after a short period of time.

Fluid was not charged with confirming the interest holdings.

**Table 1: Target's Interests and Net Acreage in the Fairway Project**

Prospect/Lease Name	County	Description	Depth Limitations	Gross acres HBP	Target Energy	Net
					TELA Garwood	TELA Garwood
BOA	Howard	S12 S/2 , Block 33 T-2S, A-1353, T&P RR Survey	None	320	50.00%	160
BOA North #4	Howard	S12 N/2 , Block 33 T-2S, A-1353, T&P RR Survey	None	160	50.00%	80
BOA North #5	Howard	S12 N/2 , Block 33 T-2S, A-1353, T&P RR Survey	None	160	55.56%	88.9
Darwin North Half (D#1,2,3)	Howard	S44 N/2, Block 33, T-1S, A-1292, T&P RR Survey	None	320	50.00%	160
Darwin SW/4 (D#4)	Howard	S44 S/2, Block 33, T-1S, A-1292, T&P RR Survey	None	160	60.00%	96
Ballarat #1	Glasscock	S 184 and 185, Bl 28, A-815 and A-A483, Waco and Northwestern Survey	None	160	55.56%	88.9
Taree	Glasscock	W/2 S193, Bl 28, A-815 and A-A483, Waco and Northwestern Survey	None	160	60.00%	96
Sydney #1	Glasscock	NW/4 S 188 Block 29 A-170 W&NW Survey	None	160	43.13%	69
Sydney #2	Glasscock	E/2 S 188 Block 29 A-170 W&NW Survey	None	160	33.75%	54
Wagga Wagga #1	Glasscock	NE/4 S221, Block 29, A-496; W&NW RR Co Survey	None	160	35.00%	56
Wagga Wagga #2	Glasscock	SE/4 S221, Block 29, A-496; W&NW RR Co Survey	None	160	38.89%	62.2
				<b>2080</b>		<b>1011</b>

## 4.2. Prospectivity

Target has reviewed the vertical wells in its acreage and the current fracture stimulated zones. The company believes that there are large intervals of prospective section in the existing wells where the casing could be perforated and the wells fracture stimulated in order to increase oil and gas production.

In addition, Target has developed a portfolio of potential horizontal well locations that, if they were drilled, could increase production by a greater amount than is capable in the vertical wells (Figure 4).



The length of these proposed lateral wells is greater than the width of the leases, so that they will need to be shared with neighbouring leases in a structure called ‘pooling’. Costs and production would be shared based upon the percentage length of well in each lease.

The company has made predictions on the potential outcome of these wells and, later in the report Fluid has used the predicted flow rates to develop a method to value the undeveloped acreage. It is notable that the formation of highest potential, the Spraberry, is not present within the leases and this has had a negative impact on the predicted future horizontal well production performance when compared to horizontal well performance in areas to the north west and southwest (Figure 2).

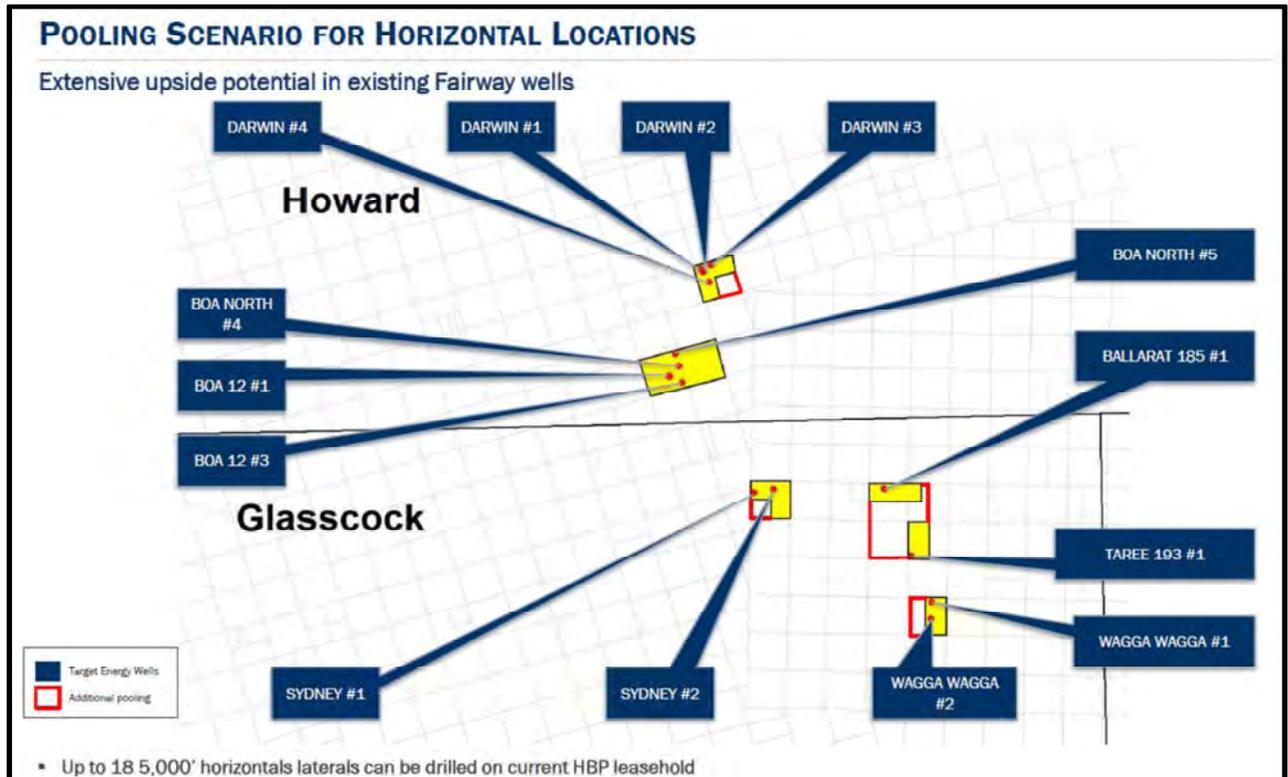


Figure 4: Pooling Scenario for Horizontal Wells

**4.3. Farm-in Deal and Purchases of Interests in Target Leases**

There are no farmin deals that have been consummated in the permit at the current date.

**4.4. Farm-in Deal and Purchases of Interests in Surrounding Acreage**

Fluid obtained information on acreage purchases over a wide area of the Permian Basin. From this information five deals are described here and the four more recent deals were selected to assist with valuation on non-producing acreage. These deals include acreage in and surrounding the Howard and Glasscock counties.

Fluid has access to proprietary deal matrices that include a purchase value for future oil production at WTI oil prices of around US\$40 to US\$50/barrel. The value is typically US\$36,500/stream barrel/producing acre and was determined a year, or so ago when oil prices were still relatively low. This production value concept is widely applied and the knowledge is applied here to



determine an approximate value of the oil and gas production within the deals that include the purchase of producing wells.

In October 2016, SM Energy, presented a summary of its Permian Basin acquisitions from QStar LLC (Figure 5). By then, 37,000 net acres including 2400net boepd of production had been purchased for US\$1.6 billion. The deal equates to a value of US\$43,243/acre including the purchase of future production. The WTI oil price at the time was approximately US\$41.07/barrel. The 2400 net boepd equates approximately to US\$85.44million. After extracting this from the total purchase price, the value of the non-producing acreage is approximately US\$40,934/acre.

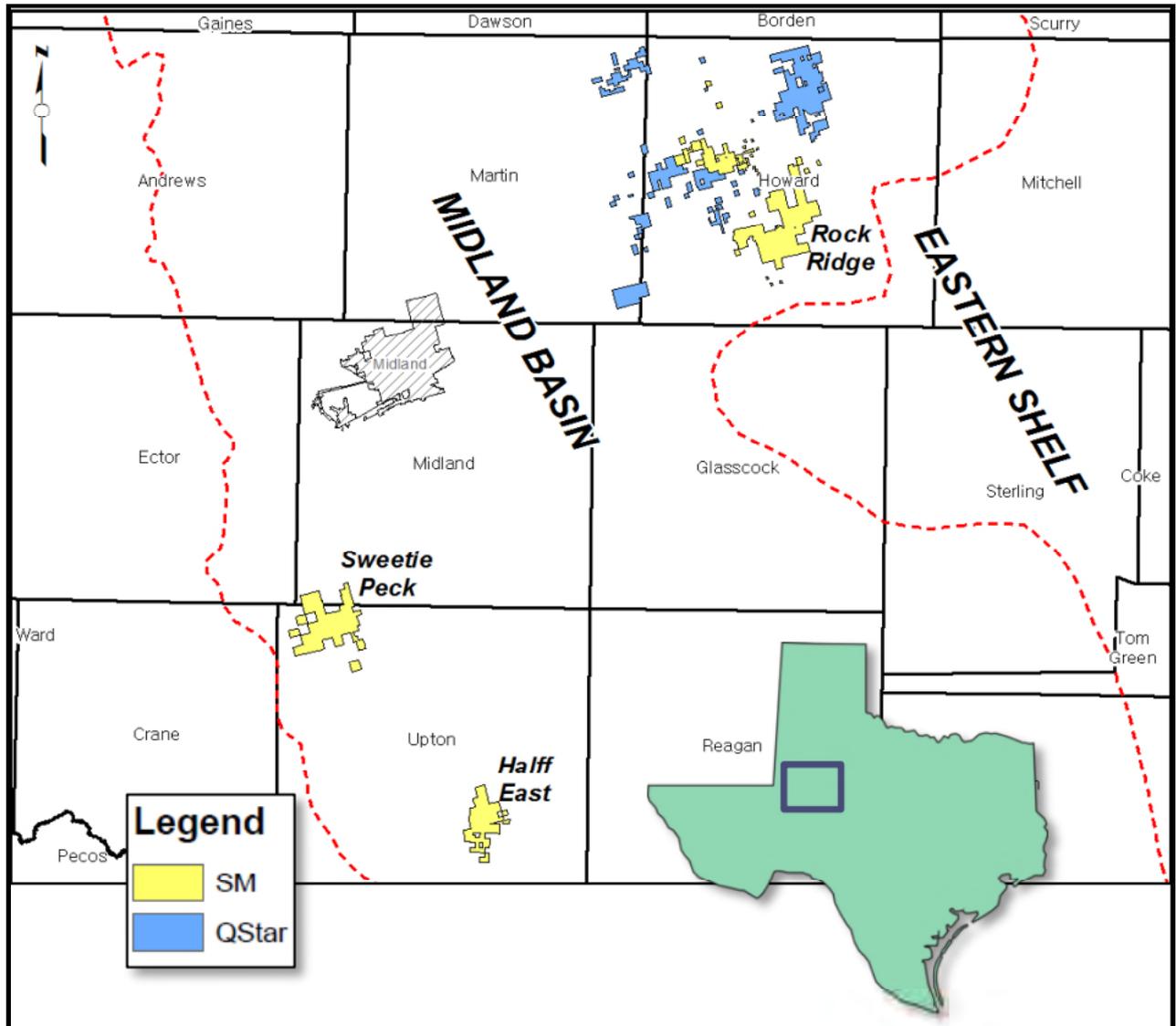


Figure 5: QStar Acreage Purchased and Location of Counties

In January 2017, Parsley Energy acquired Upton, Reagan, Midland and Glasscock county assets for US\$402 million. Figure 5 shows the location of the counties. This included net production of 1200 boepd. This equates to a value of US\$22,584/acre, including the purchased of future



production. The WTI oil price at the time was approximately US\$51.96/barrel. Parsley purchased 1200 net boepd, which equates approximately to US\$42.72 million. After extracting this from the total purchase price, the value of the non-producing acreage is US\$20,184/acre.

In January 2017, Lario Oil and Gas acquired 10,000 net acres in the Midland and Martin counties for US\$345 million. Figure 5 shows the location of the counties. This included net production of 1850 boepd. The deal equates to a value of US\$34,500/acre, including the purchase of future production. The WTI oil price at the time was approximately US\$51.08/barrel. SM purchased 1850 net boepd, which equates approximately to US\$65.86 million. After extracting this from the total purchase price, the value of the non-producing acreage is US\$27,914/acre.

At the end of June 2017, Energen Corporation acquired 9,732 net non-producing acres in its Wolfcamp/Spraberry/Cline formation inventory for US\$215 million (Figure 2). This equates to a value of US\$22,092/acre.

At the end of December 2017, Energen Corporation acquired 11,000 net non-producing acres in the Permian Basin for approximately US\$235 million. This equates to a value of US\$21,364/acre.

The average value of the non-producing acreage for the four 2017 deals described here is US\$22,888/acre.

In an article titled “Permian Basin: Is The Land Grab Turning Into Permania?” posted on 28 June, 2017 the changing price of acreage sales was analysed. The research is presented in Figure 6. ([https://seekingalpha.com/article/4084552-permian-basin-land-grab-turning-permania?page=4\\_](https://seekingalpha.com/article/4084552-permian-basin-land-grab-turning-permania?page=4_)) This was based on data compiled from Permian Basin operators' filings, releases and presentations, and shows that the value at April 2017 was about US\$22,000/acre.

The range of acreage values even reported in this document is quite wide. The monthly average values in Figure 6 suggest a reasonable range in 2016/17 of about US\$14,000/acre to US\$26,000/acre.

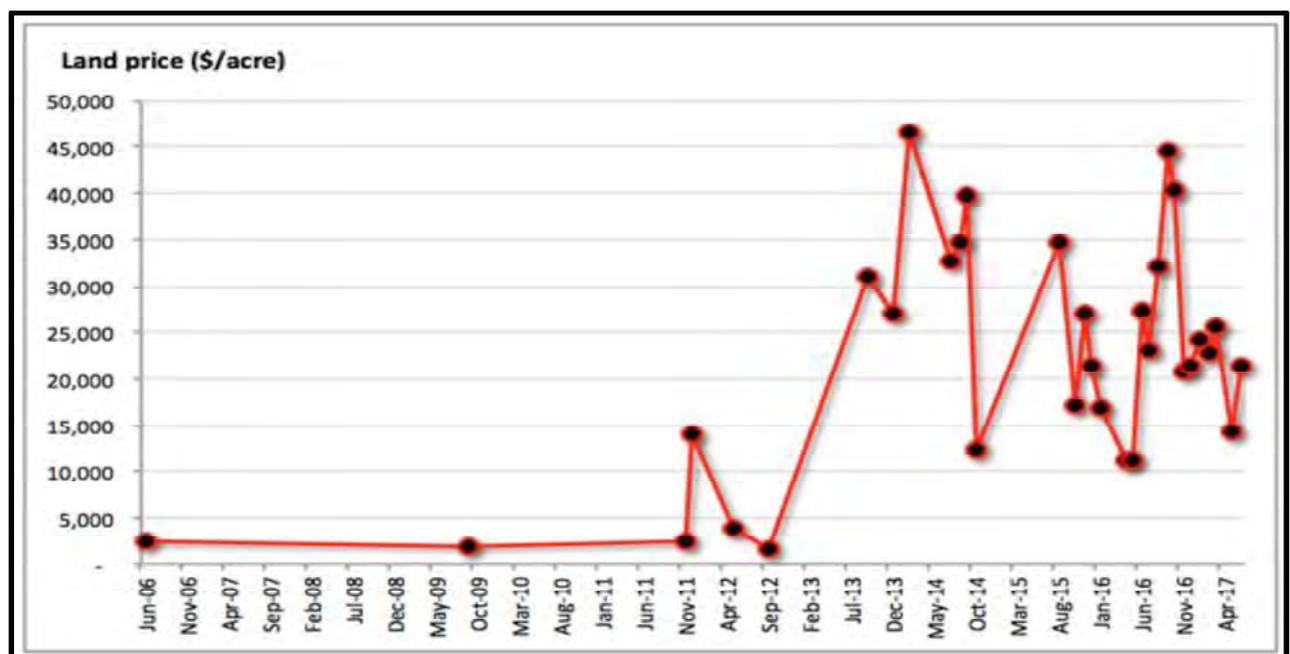
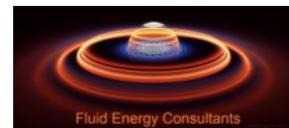


Figure 6: Land Price Per Acre in the Permian Basin, Monthly Average of Land Price Per Acre



## 4.5. Forward Program and Budget

The leases are held by production from the vertical wells. If production ceases for a period of three months, the lease may be revoked by the landholder.

The operator has no plans to carry out any work other than to maintain production in order to retain the leases. To that end, the Sydney-1 well was recently fracture stimulated over a new interval in order to re-establish production. This well has been included in Fluid's prediction of forward oil and gas production.

The Directors of Target have reported to Fluid that Darwin-2 has been fracture stimulated and flowed oil and gas. The well is awaiting the installation of a pump, at which time it will be placed on production. Target believes that a similar interval to the Darwin-3 well has been perforated and that the flow rate, once the pump is installed, will be similar to Darwin-3. Therefore, this well has been included in Fluid's prediction of forward oil and gas production by applying the gas and oil production profile of Darwin-3.

## 4.6. Valuation of Acreage

Fluid is charged with providing information to RSM to enable RSM to value Target's interest holding in the Fairway Project. As the technical experts we are required to assist RSM with the technical inputs and related costs for an economic model to value future oil and gas production from existing wells.

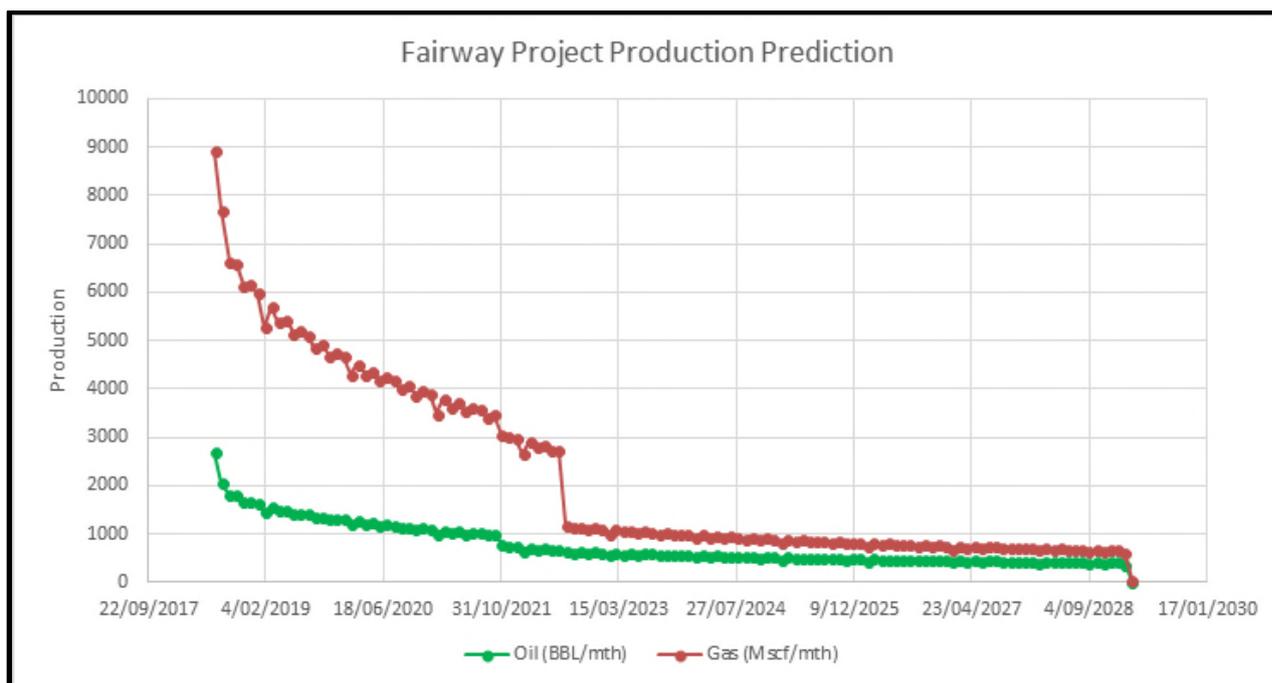
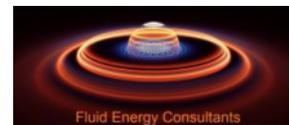
In addition, Fluid has identified the need to value the undeveloped acreage. Since this requires an assessment of deals in the market, and an understanding of how the deals compare with the Fairway Project area, Fluid has adopted comparable transaction approach to determine the valuation.

### 4.6.1. Forward Oil and Gas Production

Fluid reviewed in detail the past production and Target's prediction of the future oil and gas production, and is satisfied with the quality of the prediction.

Under separate cover Fluid provided to RSM:

- The forward oil production curve (Figure 7);
- The forward gas production curve;
  - Fluid constructed a Best Estimate, a High Case and a Low Case
  - The High and Low will be 5% higher and 5% lower than the Best Estimate
- The associated combined oil and gas OPEX costs.



**Figure 7 Lee Engineering’s Forward Prediction for Oil and Gas Production (100% JV)**

Note the sharp decline in gas in 2022 is the Darwin-3 well reaching the economic limit for oil production and ceasing production.

**4.6.2. FairwayNon-producing Acreage Estimated Value**

There are no government or other commitments, no forward budgets, and no farmin deals or sales within Target’s acreage that Fluid could use to assist with valuation of the undeveloped acreage.

Fluid was not able to uncover any deals made on acreage on the Glasscock Nose. However, there are many deals that have been consummated in the high prospectivity acreage to the northwest, west and southwest of Target’s leases.

For this reason, Fluid has used professional judgement to equate the deal values in the offset acreage to the Glasscock Nose and the Fairway Project. We have built a comparison of acreage potential around the performance of horizontal wells drilled in the areas of the deals and the predicted production performance of wells in the Fairway Project.

Target reviewed the performance of horizontal wells on the Glasscock Nose to build the company’s predictions for similar wells that may be drilled in the Fairway Project. These predictions were reviewed by Fluid and found to be reasonable.

In the Permian Basin, the predicted daily average well performance over the first 30 days of production from a new well is often used as a way to compare the performance of the acreage.

Fluid calculated Target’s well profiles to be 506boepd average rate over the initial 30 days production. This is usually expressed as 30-day IP of 506boepd.

Fluid obtained data on the offset well performance as shown in Figure 8, which shows well performance in offset wells expressed as 30-day IP.

Fluid determined that the wells in the high quality areas have an average Initial Production over the first 30 days of 1314BOE/d, Table 2.

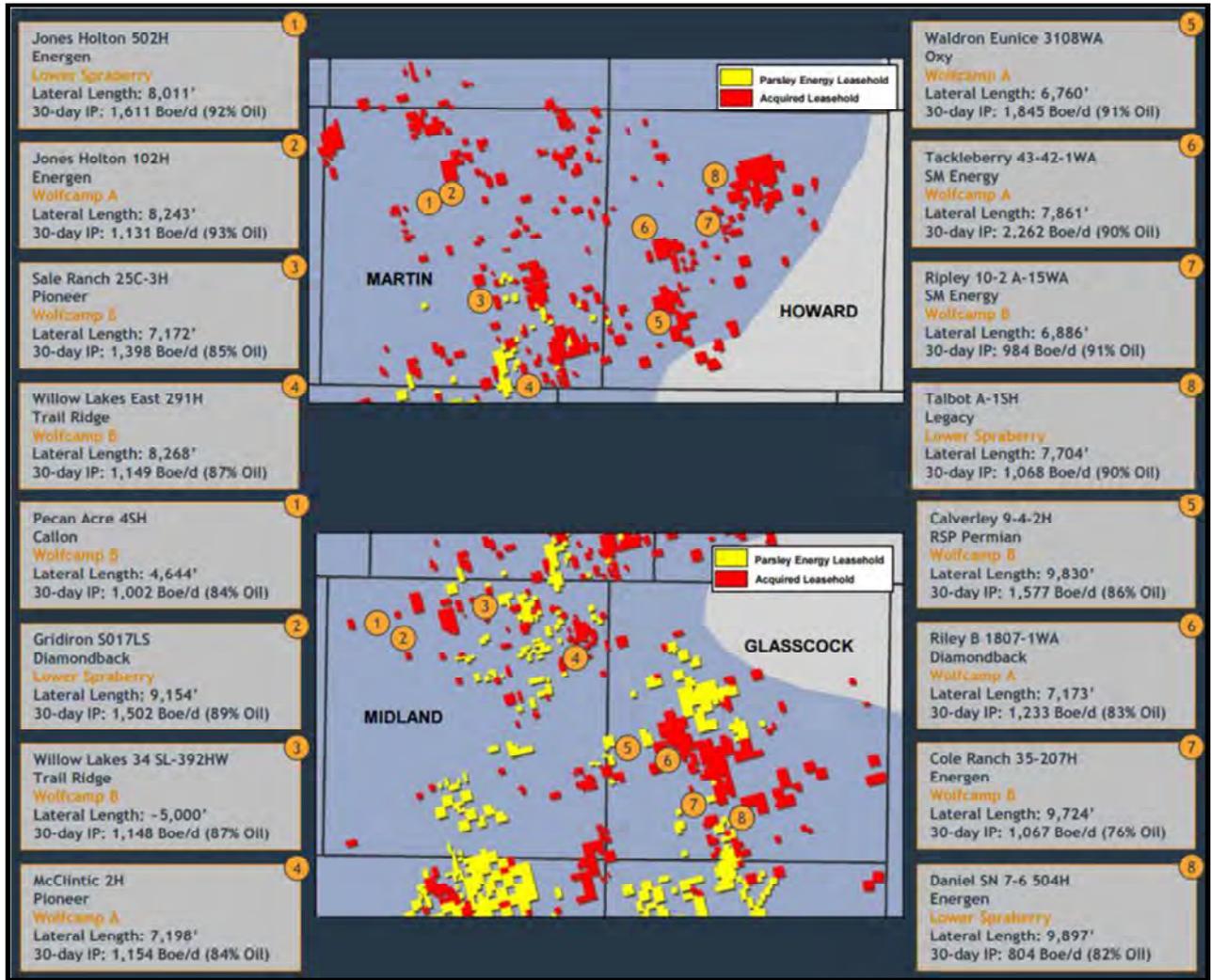


Figure 8: Horizontal Well Performance in Martin, Howard, Midland and Glasscock Counties

Table 2: Target's Interests and Net Acreage in the Fairway Project

County	map reference	30-day IP boepd
Howard	4	1149
	5	1068
	6	2262
	7	984
	8	1845
Glasscock	4	1154
	5	1577
	6	1233
	7	1067
	8	804
<b>Average 30-day IP</b>		<b>1314</b>



Fluid has determined that the Fairway acreage can be compared with leases in higher quality areas by comparing Fairway-predicted horizontal production performance with a 30-day IP of 506boepd with the actual performance in the other leases with an average 30-day IP of 1314boepd. The Fairway acreage should have a value of about 38% (506/1314) of the high quality acreage.

The average acreage value for 100% interest in the high-quality acreage is US\$22,420. Therefore the acreage value of 100% interest on the Glasscock Nose is US\$8,808.

The Best Estimate value for the non-producing acreage in the leases in the Fairway Project is assessed to be US\$17,945,112, with Target's holding valued at US\$8,722,359 (Table 3).

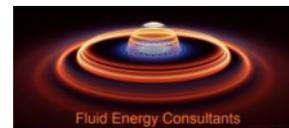
Fluid has determined that a high side value can be based upon a high acreage value of US\$26,000/acre, and a low side value can be based on a low acreage value of US\$14,000/acre, in the offset high-quality acreage.

A low-side value for Target's holding in the Fairway Project would be US\$5,446,611 and the high-side would be US\$10,115,135, using the same formulae as underlying Table 3, with preferred value of US\$8,722,359.



**Table 3: 100% Joint Venture Acreeage and Target's Net Acreeage**

Possible Future Horizontal Well Development		100% Joint Venture (JV)					Target Energy (TEX)			
		Target's Proposed Horizontal Flow rate 30 day IP (BOE/d)	Ratio with horizontal wells in high-quality acreage Ratio (%)	Value US\$/Acre \$22,420	Acres 100% JV	Value US\$	WI Working Interest	Acres Net Acres	Value US\$	
<b>Horizontal - Glasscock County</b>										
S185 (Ballarat)	#1	506	38%	\$8,627.46	160.0	\$1,380,393	55.55556%	89	\$766,885	
	#2	506	38%	\$8,627.46						
	#3	506	38%	\$8,627.46						
S188 (Sydney)	#1	506	38%	\$8,627.46	160.0	\$1,380,393	43.1250%	69	\$595,295	
	#2	506	38%	\$8,627.46						
	#3	506	38%	\$8,627.46						
S193 (Taree)	#1	506	38%	\$8,627.46	160.0	\$1,380,393	60.0000%	96	\$828,236	
	#1	506	38%	\$8,627.46						
	#2	506	38%	\$8,627.46						
<b>Horizontal - Howard County</b>										
S12 (BOA/North)	#1	506	38%	\$8,627.46	320.0	\$2,760,786	51.3889%	164	\$1,418,738	
	#2	506	38%	\$8,627.46						
	#3	506	38%	\$8,627.46						
S44 (Darwin)	#1	506	38%	\$8,627.46	320.0	\$2,760,786	53.3333%	171	\$1,472,419	
	#2	506	38%	\$8,627.46						
	#3	506	38%	\$8,627.46						
	#4	506	38%	\$8,627.46						
				<b>2080</b>		<b>\$17,945,112</b>		<b>1011</b>	<b>\$8,722,359</b>	



## 5.0. VALUATION METHODS

The principles conveyed in the Valmin Code 2015 and in the Australian Securities and Investment Commission (ASIC) Regulatory Guide 111 and 112 have been applied by Fluid. Reserve and Resource concepts follow the definitions as laid down by the Society of Petroleum Engineers (SPE) Inc. Petroleum Resources Management System PRMS) (SPE PRMS, 2011).

There are several methods that can be used to estimate the fair market value of exploration and production assets. These include and are not limited to the methods described below, which are:

- Production and reserve information leading to cash flow analysis – present value (NPV);
- Production estimates and cash flow analysis (NPV) based on current prospects (undrilled) and incorporating expected chances of success (COS) – expected monetary value (EMV); and
- Recent farm-in Actual Costs (value of work to be undertaken) and premiums or promotes (amounts above the Actual Cost of the work) paid in the permit or similar nearby permits; and Estimated Actual Cost of committed work programs (deal between permit holder and the governing authority) and operator budgets.

EMV valuation is not applied by Fluid to exploration assets as it is unreliable and unlikely to be accepted by stock exchanges. A market analysis is required for exploration assets.

Fluid restricts its valuation range to a maximum of 2.5 times Low to High value in most cases.

### a. NPV

For an oil or gas field a value can be determined from the proven (1P), proven plus probable (2P) and proven plus probable plus possible (3P) reserve. Calculation of the net present value (NPV) can be made on the reserve. Various combinations of reserve categories may be made to obtain the best valuation outcome, such as:

2P by itself; OR

1P plus 50% of the 2P; OR

$(0.9 \times \text{proved } (P1 \text{ or } 1P) + 0.5 \times \text{probable } (P2) + 0.1 \times \text{possible } (P3))$ ; OR

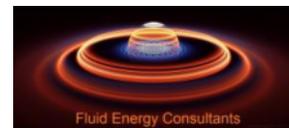
others.

The NPV is equivalent to the value of the producing asset. An NPV calculation based on only the P90 Resource Estimate can constitute a low-side value.

### b. EMV

It is possible to value an exploration permit by firstly selecting the prospect (not a lead) most likely to be drilled in the near future. By calculating the NPV on the mean potential Resource case (Best estimate), and the chance of success (COS) for discovery on a Reserve (economic resource), the expected monetary value (EMV) can be determined. The mean potential Resource is often estimated as  $0.3 \times P90 + 0.4 \times P50 + 0.3 \times P10$  (Swanson's Mean), or more accurately calculated using a Monte-Carlo simulator.

- EMV is calculated as:  
 $(NPV \times COS) - [\text{exploration Actual Cost (eg: dry well)} \times (1 - COS)]$



The EMV is equivalent to the value of the prospect.

However, EMV valuation is not applied by Fluid to exploration assets as it is unreliable and unlikely to be accepted by stock exchanges. A market analysis is required for exploration assets.

### **c. Purchase/Farm-in/Work Program**

A reliable value of an exploration permit may be estimated based on farm-in/farm-out or purchase transactions within the permit or in adjacent permits with comparable geological prospectivity and operating constraints. This is achieved by comparing the acreage with similar acreage and the farm-in/farm-out deals that have been consummated, or are in progress in various permits. Also, the immediate, committed expenditure and/or the estimated Actual Cost of committed forward work programs on the permits provide additional information.

Fluid finds that reducing values to a common denominator, expressly value per percentage point of interest in an asset (A\$/1%), is a very helpful way to compare assets values.

Some methods are described in more detail below.

#### **i. Purchase of Asset**

An asset or part of it may be purchased by a company or Joint Venture (JV). Valuation is not difficult where cash transactions are involved. Where shares are involved either as the total payment or partial, the share component may be ignored or it may be necessary to make a separate value of the shares as a first step.

#### **ii. Full Value and Premium within Farm-in Deals**

The farminee (purchaser) agrees to fund a significant exploration program, which is often agreed to be a particular dollar value or, sometimes, capped at a particular dollar value. This work usually takes the form of either drilling and/or seismic, in return for the farmor (seller) transferring a significant equity to the farminee. Where the farminee pays the normal exploration Actual Costs of the work being done for the interest being acquired and then also covers some or all of the Actual Costs of the farmor. This extra Actual Cost is called a premium (or promote).

A value for the permit can be considered based on:

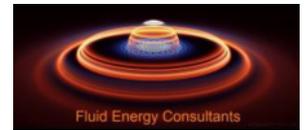
- 1) the total Actual Cost of the farm-in, that is the agreed Actual Cost of exploration plus the premium; or, more conservatively,
- 2) based on just the Actual Cost of the premium.

Both methods are valid.

In estimating the worth of a permit using the farm-in method, Fluid usually calculates the premium and sets that as the middle value with a range being determined as a 20-25% increase for the high value and a 20-25% decrease for a low value. At other times the premium value may be set as high or low depending on market conditions and other circumstances.

The full Actual Cost of the farm-in is not often applied by Fluid. Any combinations may be employed.

Fluid nearly always applies the premium value of a deal when determining exploration asset values.



### **iii. Committed Work Programs**

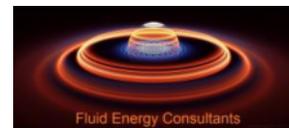
In cases where a permit has a committed work program, one that cannot usually be varied, a third method can be considered where the value of the permit is the Actual Cost required to retain it and explore for hydrocarbons. This is similar to the total Actual Cost of a farm-in. The government can be considered to have farmed out the permit, so this is treated in a similar way to method ii(1), above.

### **d. Company Expenditure**

A company or Joint Venture (JV) has often expended money on exploration of a permit. These back costs, as they are often called, can be viewed as an investment in the asset, which can then form part of a valuation.

### **e. Company Forward Budgets**

A company or JV will often have a budget for the expenditure in any particular year. This would usually have Board approval. The forward approved budget that applies to the asset being valued may be used to assist with the valuation.



## 6.0. STATEMENTS

### 6.1. Limitations

Fluid has primarily relied on data supplied by Target and on several independent reports commissioned by Target. The main consultant work upon which Fluid placed considerable reliance is that of Robert Lee of Lee Engineering. Fluid obtained other information, particularly acreage purchase information from web searches. These were compiled and written by various companies and consultants. The material was reviewed for its quality, accuracy and validity and was considered to be acceptable.

It is believed that the information received from Target is reliable and there is no reason to believe that any material facts have been withheld. However, the level of review of the information provided to us does not amount to an audit, verification or due diligence, save to the extent necessary to satisfy ourselves that it is reasonable for us to rely on that information, and no warranty can be given that this review has analysed all of the matters which a more extensive examination might reveal. Fluid has not been required to check the status of Target's interests in the permits and status of overriding royalty interests.

No warranty can be given that this review has analysed all of the matters, which an extensive examination might reveal.

This report or any reference thereto, may not be included in any other document or distributed for any other purpose without the prior written consent of Fluid to the purpose of such distribution and to the form and context in which the report or reference appears.

The opinions and statements in this report are made in good faith and in the belief that such opinions and statements are not misleading.

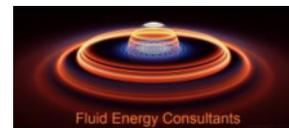
### 6.2. Declaration

#### 6.2.1. Independence

This report is our genuine opinion and the product of our professional judgment. Fluid has not had and, at the date of this report, does not have any relationship with Target or its related bodies corporate that could be regarded as capable of affecting Fluid's ability to provide an unbiased opinion in relation to this report. In particular, neither the author of this report, or any director or senior employee of Fluid involved in preparing the report has a substantial interest in, or is a substantial creditor of, or has any material financial interest in the transaction.

#### 6.2.2. Fees and other benefits

A fee will be received for the preparation of this report. Payment of the fee is not contingent on any matter. We have obtained an indemnity from Target in respect of claims made by a third party against us as a result of: (i) reliance by us on information provided by Target which was incomplete, inaccurate, out of date or otherwise erroneous; (ii) failure by Target to provide us with material information; and (iii) other claims related to or arising out of our provision of the report (except as a result of our negligence). This indemnity is a contractual arrangement between Fluid and Target, and does not affect, or limit Fluid's liability to third parties in connection with this report. Fluid will receive no other benefit for the preparation of the report. The author of this report has no pecuniary



or other interest which could be regarded as capable of affecting his ability to provide an unbiased opinion in relation to this report.

### **6.2.3. Changes in facts or circumstances**

Advance copies of this report were provided to the Directors of Target and minor changes were made as a consequence. There have been no material changes made to the report. The author confirms that there has been no material change of circumstances, or of available information that Fluid is aware of since this report was compiled, and Fluid is not aware of any significant matters arising from this evaluation that are not covered by this report, which might be of a material nature.

### **6.2.4. Currency of Report**

This report has been prepared based on information available up to and including 21 June 2018. It has been prepared in accordance with the VALMIN Code applicable to the Valuation of Mineral and Petroleum Assets and Securities.

### **6.2.5. Consent for use**

Fluid has given and not withdrawn its written consent to the inclusion of this report in the Independent Expert's Report as requested by RSM in the form and context in which this report appears.

## **7.0. Qualifications of the Authors**

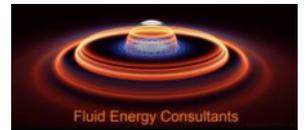
### **7.1. Doug Barrenger (Director of Fluid Energy and Principal Geologist)**

Doug Barrenger received a BSc degree (geology) from the Australian National University and a Graduate Diploma in computing Science from the Queensland University of Technology. He has more than 35 years of experience in the petroleum industry. He has written numerous Independent Expert Reports, Resource Reports and Acreage and Resource Valuations, for IPO on several stock exchanges. He was the General Manager Subsurface at Exoma Energy through 2012 and is a founding partner of Fluid Energy Consultants (2013). He is a member of the Petroleum Exploration Society of Australia (PESA), the Society of Petroleum Engineers (SPE) and a thirty five-year, Active Member of the American Association of Petroleum Geologists (number 330431).

### **7.2. Larry Franks (Director of Fluid Energy and Principal Petroleum Engineer)**

Larry Franks is an experienced Consultant Petroleum Engineer with wide technical expertise gained while working with a broader group of specialised consultants covering a wide range of disciplines. These include geology, geophysics, reservoir engineering, drilling, production, surface facility design, technical risk assessment and pipelines as well as the areas of environment and safety. In particular, Larry has expertise in Naturally Fractured Reservoirs and Unconventional Resources, in the evaluation and development of existing fields and in under-balanced drilling operations. Larry has over 32 years of experience in the Oil and Gas Industry covering both exploration and development projects in numerous countries including the United Kingdom, Australia, Africa, North America, Central America, China, Asia and the Middle East.

His expertise has focused on tight gas and fractured reservoirs and, in particular, he has been responsible for the technical evaluation, reservoir management and development of the Palm



Valley gas field in Central Australia as Magellan Petroleum's Operations Manager (25 years at Magellan) and after their purchase of Magellan, in assisting Central Petroleum as a consultant.

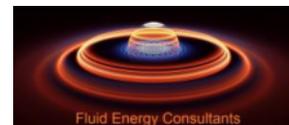
He also has considerable experience in the use of under-balanced drilling techniques and completion strategies, which are necessary if these types of reservoirs are to be successfully developed. The design and implementation of drilling projects is one of Larry's major consulting activities.

A handwritten signature in blue ink, appearing to read "Larry Franks". The signature is fluid and cursive.

Larry Franks  
Director and Principal Engineer

A handwritten signature in blue ink, appearing to read "D. Barrenger". The signature is fluid and cursive.

Doug Barrenger  
Director and Principal Geologist



## 8.0. ABBREVIATIONS

Acre	Imperial unit of area (4,047m <sup>2</sup> ), 247.1 acres in 1 km <sup>2</sup>
A\$	Australian dollars
BCFG	Billion Cubic Feet of Gas
bo	Barrels of oil.
boepd	Barrels of oil equivalent. Gas volumes are converted to barrels of oil using the equivalent calorific value of a oil
bopd	Barrels of oil per day
CAPEX	Capital Expenditure
C1 or 1C	Equivalent to Proven (P90) category of a recoverable hydrocarbon volume
C2	Equivalent to Probable (P90 to P50) category of a hydrocarbon volume
2C	P90 plus (P90-P50)
C3	Equivalent to Possible (P50-P10) category of a hydrocarbon volume
3C	P90 plus (P90-P50) plus (P50-P10)
COSg	Geological Chance of Success
COSe	Economic Chance of Success
°C	degrees Celsius
DII	Department of Industry and Investment
EMV	Expected monetary value
Ft, OR, ‘	Foot / feet
GIP	Gas in Place
JV	Joint Venture
km	Kilometre
km <sup>2</sup>	Square kilometre
Lead	Potential hydrocarbon trap that requires further work to determine if it might become a prospect.
m	Metre
ma	Million ago (years)
mile	Unit of length measurement. Equivalent to 1.61 kilometres
\$m	Millions of dollars
M <sup>3</sup> /t	Cubic meters of gas per tonne of coal
mscfd	Thousand standard cubic feet a day
mmscfd	Million standard cubic feet a day
mmbo	Million barrels of oil
MW	Mega-watt
mW/m <sup>2</sup>	Milli-watts per square metre
NPV	Net Present Value
OGIP	Original Gas in Place
OOIP	Original Oil in place
OPEX	Operating Expense
Prospect	Potential hydrocarbon trap that is ready to drill - exploration
P1 or 1P	Proven category of a hydrocarbon reserve volume
P2	Probable category of a hydrocarbon reserve volume
2P	Proven plus Probable



P3	Possible category of a hydrocarbon reserve volume
3P	Proven plus Probable plus Possible
P90	90% of the potential recoverable hydrocarbon volume is greater than this volume on a probabilistic distribution (prospective resource).
P50	50% of the potential recoverable hydrocarbon volume is greater than this volume on a probabilistic distribution (prospective resource).
P10	10% of the potential hydrocarbon volume is greater than this volume on a probabilistic distribution (prospective resource).
£	English pounds
Swanson's Mean	Approximation of the mean of a lognormal probability distribution, usually calculated as $0.3 \times P10 + 0.4 \times P50 + 0.3 \times P10$ .
US\$	United States dollars

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