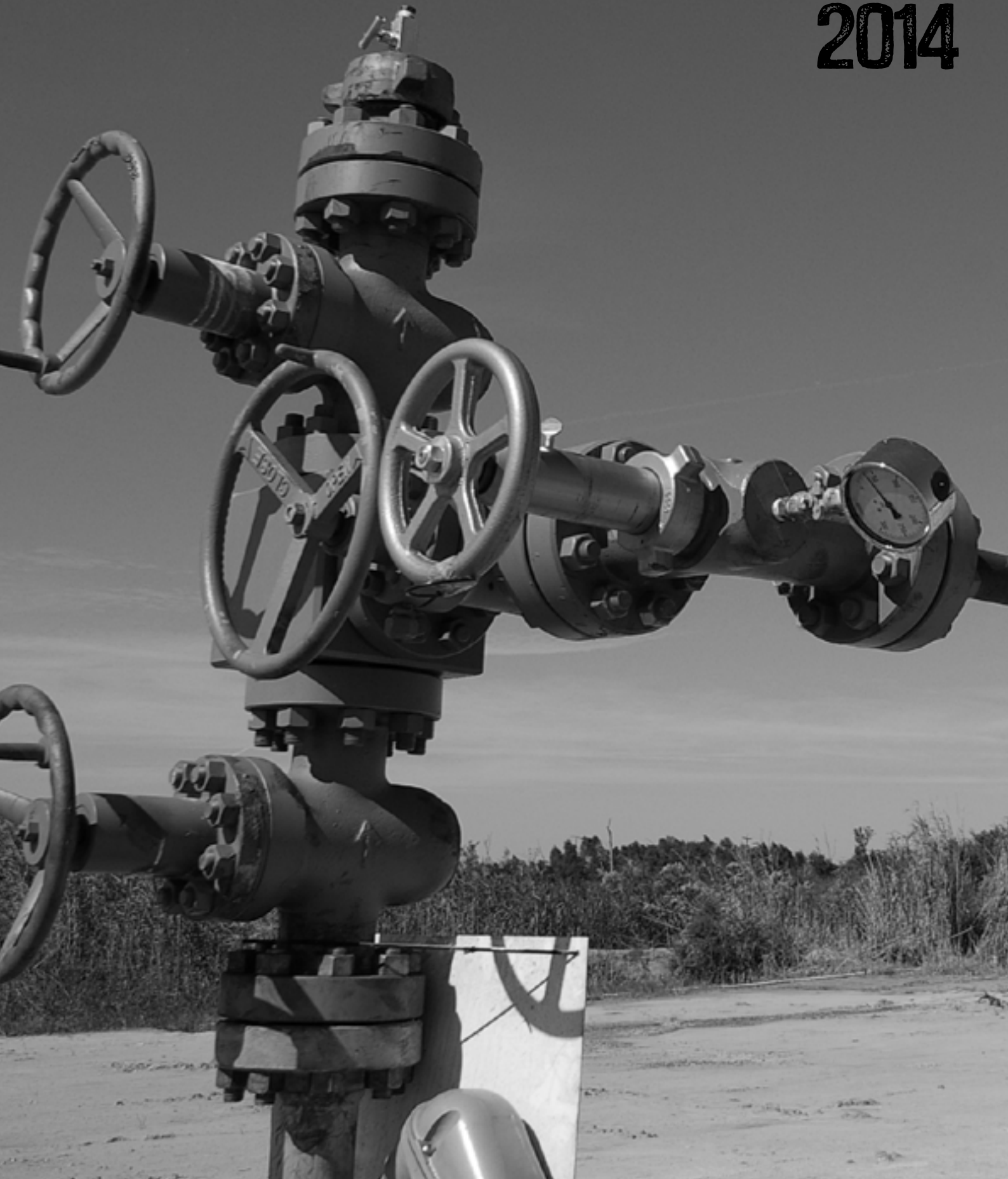




TARGET ENERGY LIMITED ABN 73 119 160 360

Annual Report

2014





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CORPORATE PHILOSOPHY

Target Energy Limited was established in 2006 with the simple objective of creating a successful publicly listed petroleum exploration and production company.

We chose the United States as our principal area of operations due to the attractive operating environment in that country. In particular we focused on regions with high levels of activity, success and infrastructure. We then selected reputable operators who had demonstrated track records of success and selected the best available prospects from their inventories to comprise our portfolio.

This strategy paid off almost immediately with Target Energy becoming an oil and gas producer in the United States within 6 months of listing on the ASX.

More recently, the Company has expanded its focus to include unconventional and resource plays, such as those in the prolific Permian Basin in West Texas. The Company now has an established presence in this sector and continues to look for opportunities to expand its position there.

Target will continue to actively source and drill a range of prospect types and will seek to expand its areas of operations as opportunities become available.



CORPORATE DIRECTORY



Directors

Christopher Rowe, M.A.
Non Executive Chairman

Laurence Roe, B.Sc
Managing Director

Stephen Mann, CA
Non Executive Director

Dr Ralph Kehle
Non Executive Chairman - TELA (USA)

Company Secretary

Rowan Caren, B.Com, CA

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CHAIRMAN'S REPORT



Dear Shareholder,

"Activity" is the word that best exemplifies this past financial year for your company.

Target significantly stepped up its drilling program in the period under review. In what has been its most active year to date, the company drilled eight wells in its Fairway Project in the West Texas Permian Basin – five of these back-to-back in quarters one and two of 2014.

We have now drilled 14 wells in this Project. By year's end, that number will have risen to 17 – quite an achievement for a small Australian company competing for its place in the sun in the huge and vibrant American oil and gas industry. Additionally, the company has up to another 100 potential well locations in the area.

This intensified drilling program, enhanced by the use of advanced technologies such as fracture stimulation, has brought with it a concomitant increase in both oil and gas production.

Target's oil production increased by 11 per cent between the first and second quarters of 2014. With final production numbers awaited on some of the most recently completed wells at the time of writing, the company's current daily oil production already exceeds 344 BOEPD. Our proven reserves have also grown significantly in the past 18 months.

Drilling at this intensity and with this level of success is enabled by Target's foothold in the West Texas Permian Basin, one of the world's most prolific oil and gas producing regions, boasting a current daily production of 1.3 million barrels of oil and 4 billion cubic feet of gas.

The value of the company's activity in this Basin is highlighted by a number of factors.

The widespread use of advanced extraction technologies in the Permian and other major US oil and gas fields has dramatically shifted the balance of international oil and gas production. According to the International Energy Agency, the US has overtaken Saudi Arabia and Russia as the world's biggest producer of oil and natural gas liquids.

Further, the US's long sought-after goal of energy independence is now foreseeable – the U.S. Energy Information Administration is predicting the United States will achieve energy self-sufficiency by around 2035.

Against such a background, the optimisation of prolific producing areas such as the Permian Basin brings with it the potential for significantly greater returns to companies working in this changing energy matrix and their shareholders.

In summary, the year under review has been one of heightened activity and noteworthy achievement by your company with its increased drilling activity, increased production and increased reserves, undertaken in one of the world's most bountiful basins. Target's growth outlook is excellent and we look forward to adding value to the company in the future.

As always, your company's achievements come through hard work, vision and team work. My thanks and appreciation go to Managing Director, Laurence Roe, my fellow Board Members and Target staff for their commitment and effort over the past 12 months. I also wish to acknowledge the support and loyalty of our shareholders.

A handwritten signature in black ink, appearing to read 'C. Rowe'.

Christopher Rowe
Chairman

HIGHLIGHTS

Target's most active period to date

Proven reserves increase by 20%

✓	July 2013	Darwin #3 drilled
✓	October 2013	Wagga Wagga #1 drilled
✓	November 2013	Drilling commences at Sydney #2
✓	December 2013	Drilling complete at Sydney #2
✓	February 2014	Sydney #2 production commences, peaking at 520 BOEPD BOA 12 #3 drilling commences Company issues secured Convertible Notes to raise \$6m and retire existing debt
✓	March 2014	BOA 12 #3 drilling finishes Wagga Wagga #1 fracture stimulated BOA North #4 drilling commences
✓	April 2014	BOA North #4 drilling complete Wagga Wagga #2 drilled
✓	May 2014	Homar #1 drilled BOA 12 #3 fracture stimulated
✓	June 2014	Ballarat 185 #1 drilled Partial divestment of 10% WI in Fairway
✓	July 2014	Wagga Wagga #2 fracture stimulated Homar #1 fracture stimulated
✓	August 2014	BOA 12 #3 fracture stimulated Taree 193 #1 drilling commences
✓	September 2014	Target releases 2014 Reserves Update Taree 193 #1 drilling finishes

CORPORATE OVERVIEW



Laurence Roe
Managing Director



It has been the busiest year yet for Target Energy.

In the last 12 months, your Company has continued to build momentum in its successful Fairway project in West Texas, further consolidating its position in the lucrative Permian Basin. At the time of writing, drilling had just been concluded at Taree 193 #1, the company's 14th well in the Fairway project, with a further three wells slated to be drilled by the end of 2014.

As noted above, this has been your Company's most active year so far – with the increased level of drilling, Target has increased its proven reserves, production and cash-flow. We expanded our drilling program to ensure that by the end of 2014, all tracts in the project have at least one well in them (with one exception, where we are still confirming our lease-hold position). In addition, and again by year end, we will have drilled additional development locations in the Ballarat and Darwin tracts. The focus for our ongoing work at Fairway will continue to be a balance of development drilling and meeting lease-hold drilling obligations.

During the year, Target took the opportunity to reap some profits in the Fairway project in the form of a divestment of a 10% Working Interest in part of the project. A Purchase and Sale Agreement (PSA) to that effect was signed on 30 June 2014, with the transaction partially completed on the same day. The balance of the transaction was scheduled to take place shortly thereafter, however the parties were unable to overcome an outstanding valuation issue on one of the tracts and consequently the balance of the transaction did not occur as contemplated by the PSA with Target retaining its interests in the relevant tracts.



Operationally, Target has had an active year in its numerous projects:

- During the year the Company drilled eight new wells in its Fairway project area in Howard and Glasscock Counties, Texas
- Darwin #3, Wagga Wagga #1 and #2, BOA 12 #3, BOA North #4 and Homar #1 were drilled and fracture stimulated as “Wolfberry” wells
- Sydney #2 was drilled and completed in the Fusselman interval with initial flow rates setting a record for the Company
- Ballarat 185 #1 was successfully drilled and is awaiting fracture stimulation
- Since June 30 2014, the Company has drilled the BOA North #5 and Taree 193 #1 wells, which are presently awaiting testing
- At our East Chalkley Field in Louisiana, pump problems saw the Pine Pasture #3 oil development well shut-in earlier in the year. The partners are presently planning to restore production with a workover program that includes all wells in the field – this should be underway in the fourth quarter of 2014.
- Production also continues at our Merta #1 well in Wharton County, Texas, and at our Section 28 project in St Martin Parish, Louisiana.
- The Company continues to investigate new opportunities.

In February 2014, the Company secured additional funding of \$6,000,000, via a secured convertible note facility. The previous convertible note facility was retired at the same time.

Target continues to focus on maximising returns to our shareholders. We will complete the drilling program planned for the rest of 2014 and into early 2015 and will then test the market with a full sale of the asset. At that time, Target and its partners will have drilled 18 to 20 wells in the project, with wells drilled in virtually all leases and two-thirds of those leases expected to be fully held by production.

Based on recent transactions in the Permian Basin (the “Basin”), a sale would provide Target with the potential to realise a substantial value from the Fairway Project. Divestment has always been a part of the Company’s ultimate strategy in the Basin and the proposed timing is driven in part by a strong demand for producing assets in the area and also by a large and persistent valuation gap between Target’s current market valuation and the realised value of similar assets in completed transactions in the Midland Basin.

In the event of a successful sale process, retirement of debt, a return of capital to shareholders and re-investment in new projects will be considered.

ACTIVITY REVIEW

FAIRWAY PROJECT

Howard & Glasscock Counties, Texas

Target Energy 35% – 60% Working Interest

During the year, Target and its partners drilled a further eight wells in the Fairway Project.

Target also agreed to divest a 10% Working Interest in the Fairway Project lease-holdings to Aurora Energy Partners ("Aurora"), a company associated with US company Victory Energy Corporation. The transaction, with an effective date of 1 May 2014, was partially completed on 30 June 2014. Aurora subsequently failed to make the requisite payment for the balance of the transaction by the agreed 10 September 2014 date. Subsequent efforts to address the matter did not yield a successful resolution and following Target's advice to Aurora that if the closing was not completed in a timely manner, it intended to withdraw the balance of the assets from sale, Target was advised by Aurora that it considered the PSA terminated as to those assets.

Ultimately Target sold a 10% Working Interest in the BOA and Wagga Wagga tracts, and in parts of the Darwin, Homar and Ballarat tracts.

The Fairway project comprises 4,482 gross acres with a net 2,478 acres for Target. Changes in the lease-holding, other than the Victory sale, included the addition of 124 acres adjacent to the Ballarat lease and a reduction of the leases attributed to the S4 tract (from 610 acres to 440 acres) due to delays in securing a lease arrangement over a 120-acre holding and the inability to locate mineral owners over another 50 acres. The former is expected to be resolved in the near future.

Target holds an average 55% Working Interest (ranging from 35% to 60%) in the tracts.

Fairway targets the prolific Wolfberry section – recognised as one of the United States' top oil resource plays – and the deeper Fusselman Formation, another highly productive oil zone in the region. In addition, the Fairway project lease-holdings are situated within the burgeoning Wolfcamp Shale and Cline Shale horizontal drilling trends.

Up to 112 vertical wells can be drilled on the Fairway acreage, based on a typical 40-acre spacing. This figure could be increased substantially in light of a recent decision by the Railroad Commission of Texas (the regulator of oil and gas activities in Texas) to halve the minimum Wolfberry drill spacing to 20 acres. At a 20-acre spacing, up to 224 wells could be drilled at Fairway, potentially doubling the value of the asset for Target. The Company is also monitoring local horizontal drilling activities within the Wolfcamp section, particularly in the Cline Shale, which are yielding encouraging results and may provide an expanded exploitation strategy for Target and its partners.

Darwin

Darwin #3

Darwin #3 is located approximately 800m east of Darwin #1 and was designed to target both the Wolfberry and Fusselman sections. Drilling commenced on 23 July 2013, with the well reaching Total Depth of 3,092.8m (10,147ft) on 11 August 2013.

Continual high levels of oil and gas flowing into the lower section of the borehole precluded the acquisition of open-hole logs before running the production casing, and instead cased-hole logs were acquired after setting production casing.

Subsequent testing of the deeper Fusselman carbonate showed that section to be water-wet. A four stage fracture stimulation program over a 177m interval was undertaken on 22 October 2013, and the well put on pump on 14 November 2013. Prior to producing into the lease battery, the well was averaging 23 BOPD with 88 mcfgd and 58 BWPD (26-31 Dec 2013).

Wagga Wagga

Wagga Wagga #1

Wagga Wagga #1 is located 8.5km (5.3miles) south east of the Sydney #1 well and targeted the Ellenburger, Fusselman and Wolfberry sections. Operations commenced on 14 October 2013, with the well encountering good oil and gas shows while drilling and reaching a Total Depth of 3,057m (10,030ft) on 27 October 2013. Subsequent wireline log analysis indicated potential pay in the Ellenburger and Fusselman/Devonian sections as well as within the Wolfberry interval. The well was completed as an oil producer.

A seven stage fracture stimulation of the Wolfberry section was performed on 28 March 2014. The stimulation covered an interval of 470m, using approximately 25,000 barrels of load water. The well is currently producing an average of 23 BOPD.

Wagga Wagga #2

The Wagga Wagga #2 well is situated approximately 706m (2,316ft) south of Wagga Wagga #1 in Glasscock County. Drilling commenced on 16 April 2014 and concluded with the well reaching its Total Depth at 2,984m (9,790ft) on 30 April 2014. Analysis of wireline log data indicated the well had encountered potential pay in the Wolfberry section and Fusselman Carbonate. The well was completed as an oil producer.

A seven stage fracture stimulation of the Wolfberry section was performed on Wagga Wagga #2 on 7 July 2014 after testing in the Fusselman Carbonate and the Devonian yielded only minor oil. The stimulation covered an interval of 440m, using approximately 23,000 barrels of load water. The well was put on pump on 1 August 2014 and is presently producing 42 BOPD plus 61 BWPD (22 – 28 August 2014).

Sydney

Sydney #2

Sydney #2 is located approximately 800m east of Sydney #1 and targeted both the Wolfberry and Fusselman sections. Drilling operations commenced on 26 November 2013, with the well reaching a Total Depth of 3,040.4m (9,975ft) on 7 December 2013. Good shows were encountered while drilling and subsequent wireline log analysis indicated potential pay in the target intervals. The Fusselman Formation was intersected 13m (42ft) updip to that of the nearby Sydney #1 oil well.

The well was initially completed as an oil producer from the Fusselman Carbonate with an initial production rate of 316 BOEPD (270 BOPD with 277 mcf/d) announced on 19 February 2014 that climbed to a peak of 520 BOEPD (415 BOPD plus 640 mcf/d – a production record for Target Energy). Production has since eased to 80 BOPD with 200 mcf/d.

Homar

Homar #1

Drilling commenced at Homar #1 well on 5 May 2014, with the well reaching a Total Depth of 3,292m (10,800ft) on 29 May 2014. Homar #1 experienced strong oil and gas shows throughout the Wolfberry section as well as a strong show in the Fusselman Carbonate. The well was completed as an oil and gas producer.

A five stage fracture stimulation of the lower Wolfberry section was performed at Homar #1 on 8 July 2014. The program covered a 328m interval, using approximately 17,300 barrels of load water. The well was put on pump on 1 August 2014 and is presently producing 48 BOPD plus 166 BWPD (22 – 28 August 2014).

Ballarat

Ballarat 185 #1

Drilling commenced at Ballarat 185 #1, approximately 5kms east of the Sydney lease in Glasscock County, on 7 June 2014 with the well reaching its Total Depth of 3,030m (9,942ft) on 28 June 2014. The well was completed for production and is scheduled for a Wolfberry fracture stimulation in October 2014.

Boa

BOA 12 #3

BOA 12 #3 is located approximately 550m (1,800ft) south-east of the Company's 2011 BOA 12 #1 well in Howard County. Drilling commenced on 25 February 2014 with the well reaching Total Depth at 3,101m (10,175ft) on 20 March 2014. The well was completed as an oil producer. A fracture stimulation of the Wolfberry section was performed on 2 May 2014 after testing in the Fusselman Carbonate did not recover commercial quantities of oil. The four stage fracture stimulation of the Wolfberry section covered a 225m interval, using approximately 15,700 barrels of load water. The well was put on pump on 15 May 2014 and averaged 65 BOPD with 139 BWPD and 43 mcf of gas until 31 May 2014 at which time the well production was combined with that of BOA 12 #1.

BOA North #4

BOA North #4 is located approximately 550m (1,800ft) north-east of the Company's 2011 BOA 12 #1 well. Drilling commenced on 25 March 2014 and concluded with the well reaching Total Depth at 3,093.8m (10,150ft) on 10 April 2014. The well was completed for production. A four stage Wolfberry fracture stimulation was performed on 12 August 2014, covering a 341m interval, using approximately 14,800 barrels of water. The well was put on pump on 23 August 2014 and was averaging app 35 BOPD with 34 mcf/d and 242 BWPD (2-9 Sept 2014).

BOA North #5

Drilling commenced at BOA North #5 on 8 August 2014, with the well drilled to a Total Depth of 3,102m (10,177ft) on 1 September 2014. The well was completed for production and will be tested for Fusselman potential prior to deciding timing of a Wolfberry fracture stimulation.

EAST CHALKLEY OIL FIELD

Cameron Parish, Louisiana

Target Energy 35% Working Interest

The East Chalkley project is an oil field appraisal and development program, approximately 33kms south-east of the town of Lake Charles in Cameron Parish, Louisiana. The oil accumulation, on the east flank of the Chalkley Field, is a previously unidentified down-dip oil leg associated with the gas field. Target participated in the successful drilling of the Pine Pasture #2 well in 2008.

At 30 June 2014, the field was shut-in pending workovers at Pine Pasture #1 and #2 and a pump replacement at Pine Pasture #3. Prior to the shut-in, field production was around 32 BOPD from the Pine Pasture #2 well along with approximately 300 BWPD. The water is disposed on-site using a salt-water disposal well drilled by the partners in late 2009. The Pine Pasture #1 was shut-in in 2011 due to a suspected hole in the production tubing.

PRODUCTION

Summary

Table 1 summarises Target's production for the 2013-2014 year and Figure 1 shows the monthly production in Barrels of Oil equivalent for the same period.

Actual sales from production in the period to 30 June 2014 (net of royalties and state taxes) were A\$4.7 million.

Project	Production Commenced	TEX Working Interest	Production 01/07/13 to 30/06/14 (Gross)		Production 01/07/13 to 30/06/14 (Net to TEX WI)		Comment
			Oil (Bbl)	Gas (MCF)	Oil (Bbl)	Gas (MCF)	
Section 28	August 2007	25%	3,115	112,965	779	28,241	Producing
East Chalkley	July 2008	35%	10,322	19,215	3,613	6,725	Producing
Merta	June 2010	25%	218	44,095	55	11,024	Producing
Fairway	June 2012	35% – 60%	75,473	151,261	44,863	90,757	Producing
Total			89,127	327,536	49,308	136,747	

Table 1. Target Energy 2013-2014 Production Summary

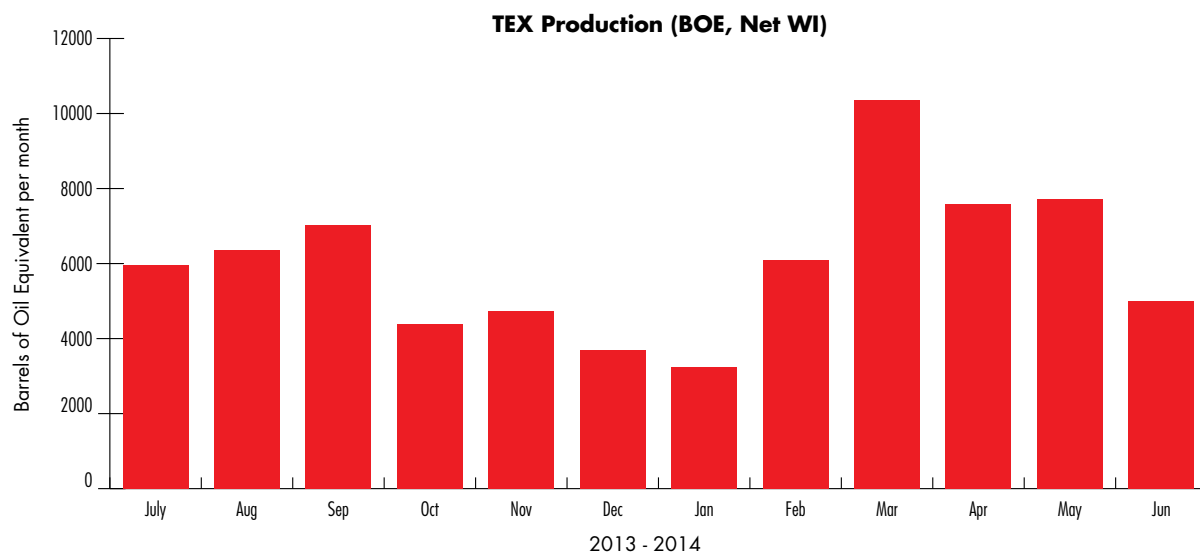


Figure 1: Target Energy Monthly Production (BOE)

FAIRWAY PROJECT

Howard & Glasscock Counties, Texas

Target Energy 25% Working Interest

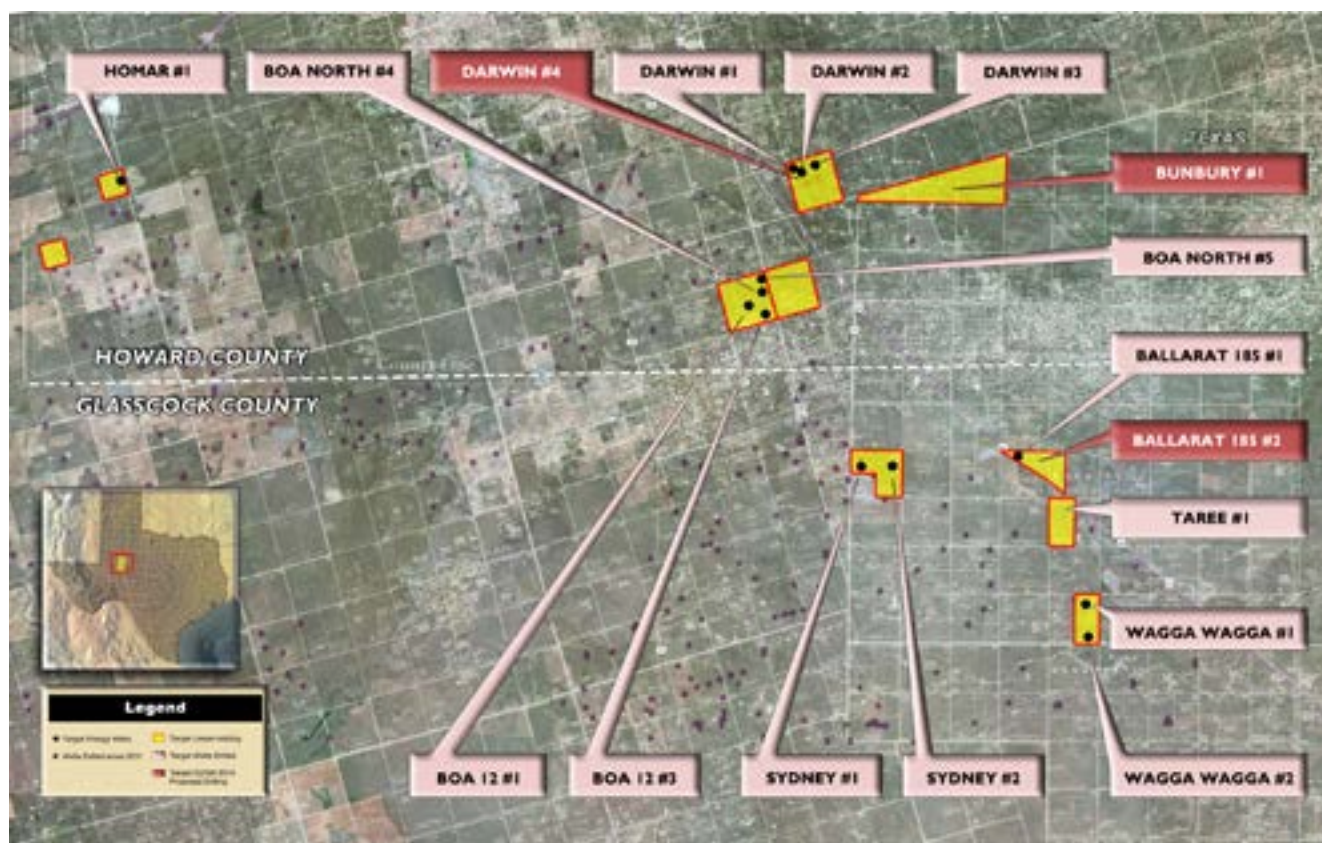


Figure 2: Fairway Project Wells and Lease-holdings, West Texas

Eight wells were in production for all or part of the financial year, producing oil and gas from the Wolfberry section (BOA 12 #1, BOA 12 #3, Darwin #3, Wagga Wagga #1) and from the Fusselman/Devonian section (Darwin #1 & #2, Sydney #1 & #2).

At 30 June 2014, production at Fairway had totalled 204.7 MMCFG plus 116,297 barrels of oil, with aggregate gross daily production of approximately 263 BOEPD. Well locations are shown in Figure 2.

MERTA GAS FIELD

Wharton County, Texas

Target Energy 25% Working Interest

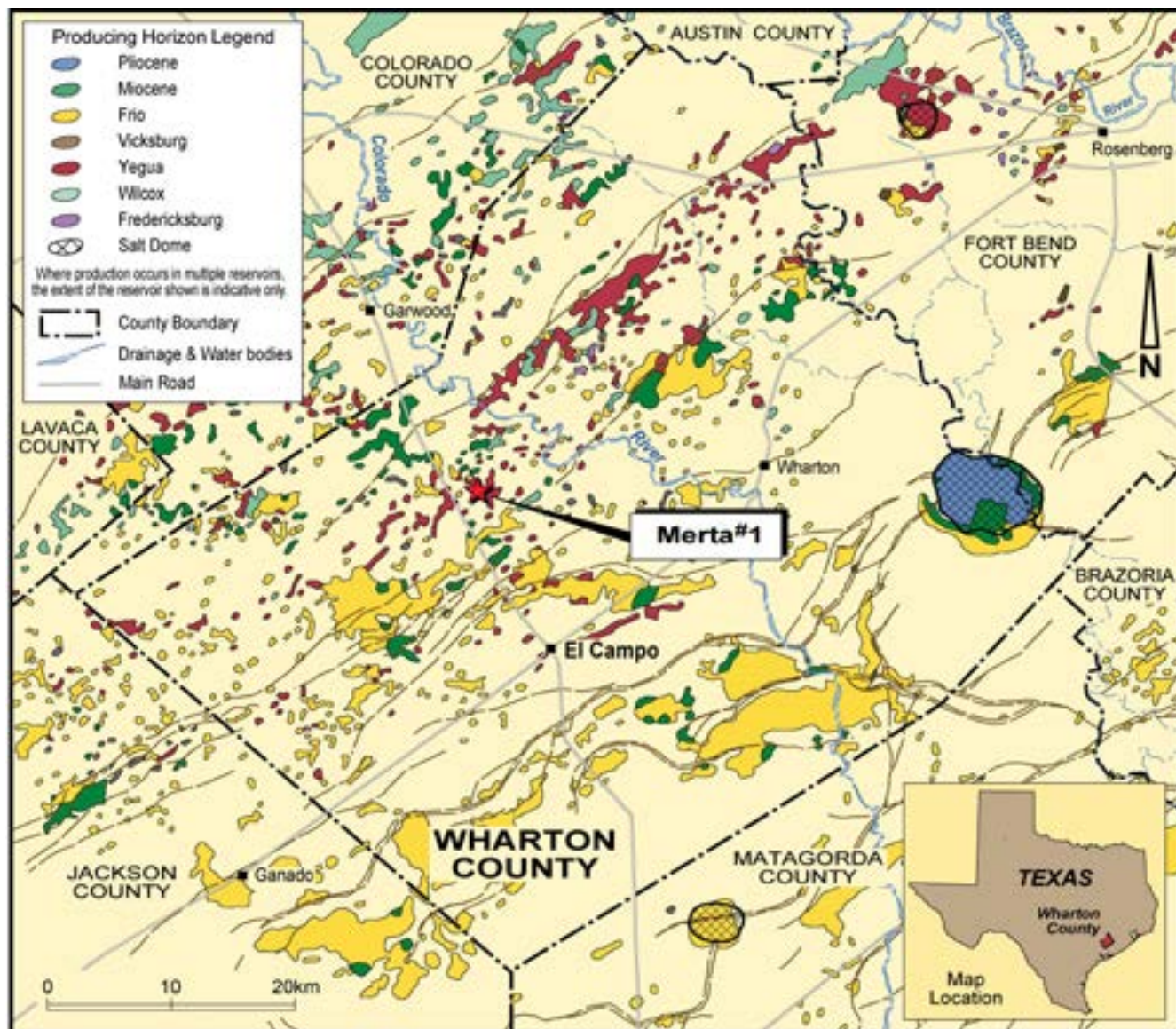


Figure 3: Merta #1 – Wharton Co, Texas

Production continues at Merta #1 from the Cook Mountain Sands (Figure 3).

At 30 June 2014 the well had produced 407 MMCFG plus 5,250 barrels of condensate. The well is presently producing at a rate of approximately 0.14 MMCFGD with 1-3 BOPD.

SECTION 28 PROJECT

St Martin Parish, Louisiana

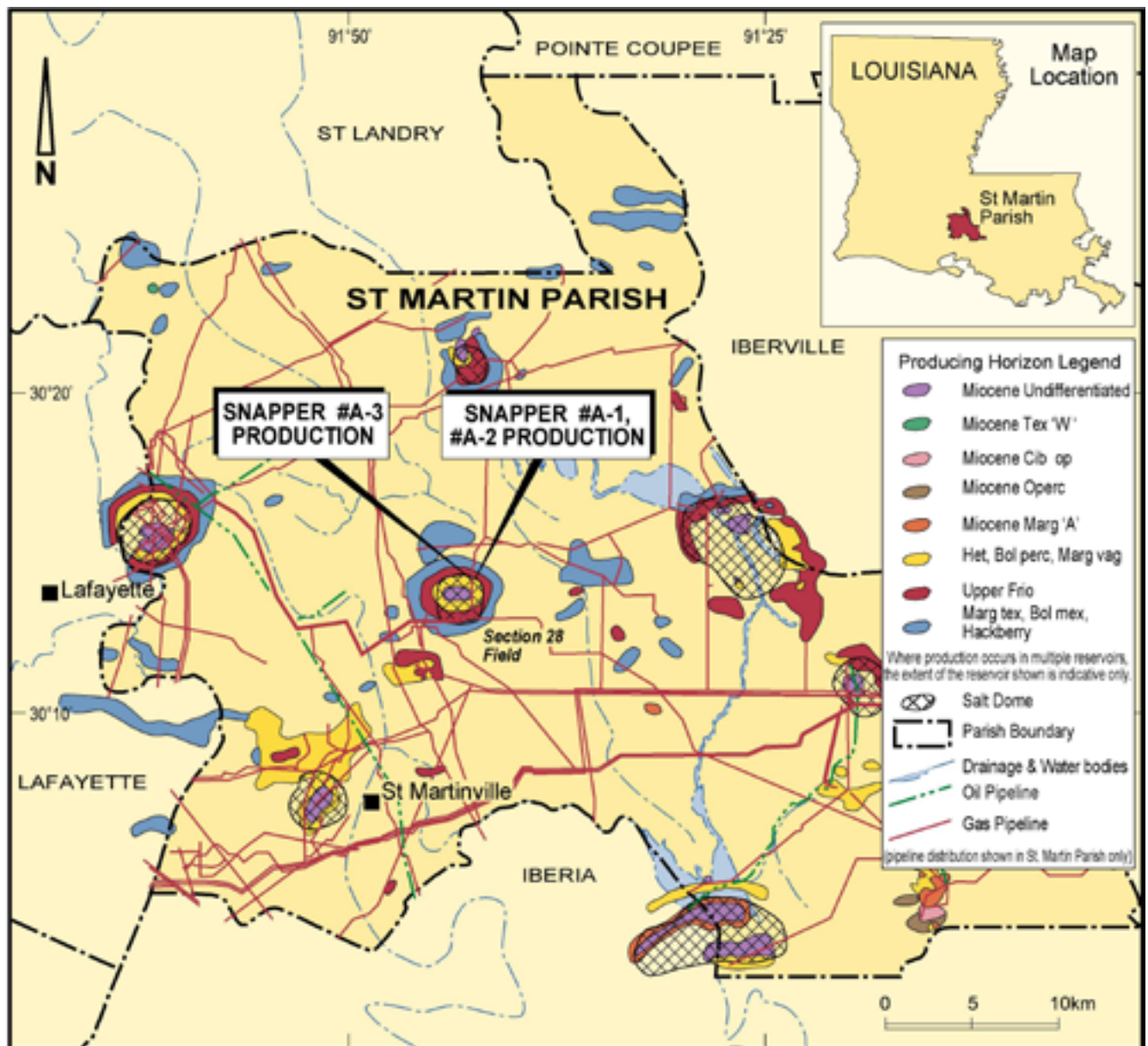


Figure 4: Section 28 Production – St Martin Parish, Louisiana

SML (Snapper) #A-1 (Target Energy 25% Working Interest)

At 30 June 2014, the well had produced 1,067 MMCFG plus 3,810 barrels of condensate. The well is presently temporarily abandoned. The locations of the Snapper wells are shown in Figure 4.

SML (Snapper) #A-2 (Target Energy 25% Working Interest)

At 30 June 2014, the well had produced 662 MMCFG plus 39,200 barrels of oil and condensate. Snapper #A-2 is currently completed for oil production from the 1st Camerina sand. The well is presently producing approximately 200 MCFGD.

SML (Snapper) #A-3 (Target Energy 25% Working Interest)

At 30 June 2014, the well had produced 656.1 MMCFG plus 48,406 barrels of oil and condensate and was producing approximately 20 BOPD plus 300 MCFGD.

EAST CHALKLEY OIL FIELD

Cameron Parish, Louisiana

East Chalkley Field (Target Energy 35% Working Interest)

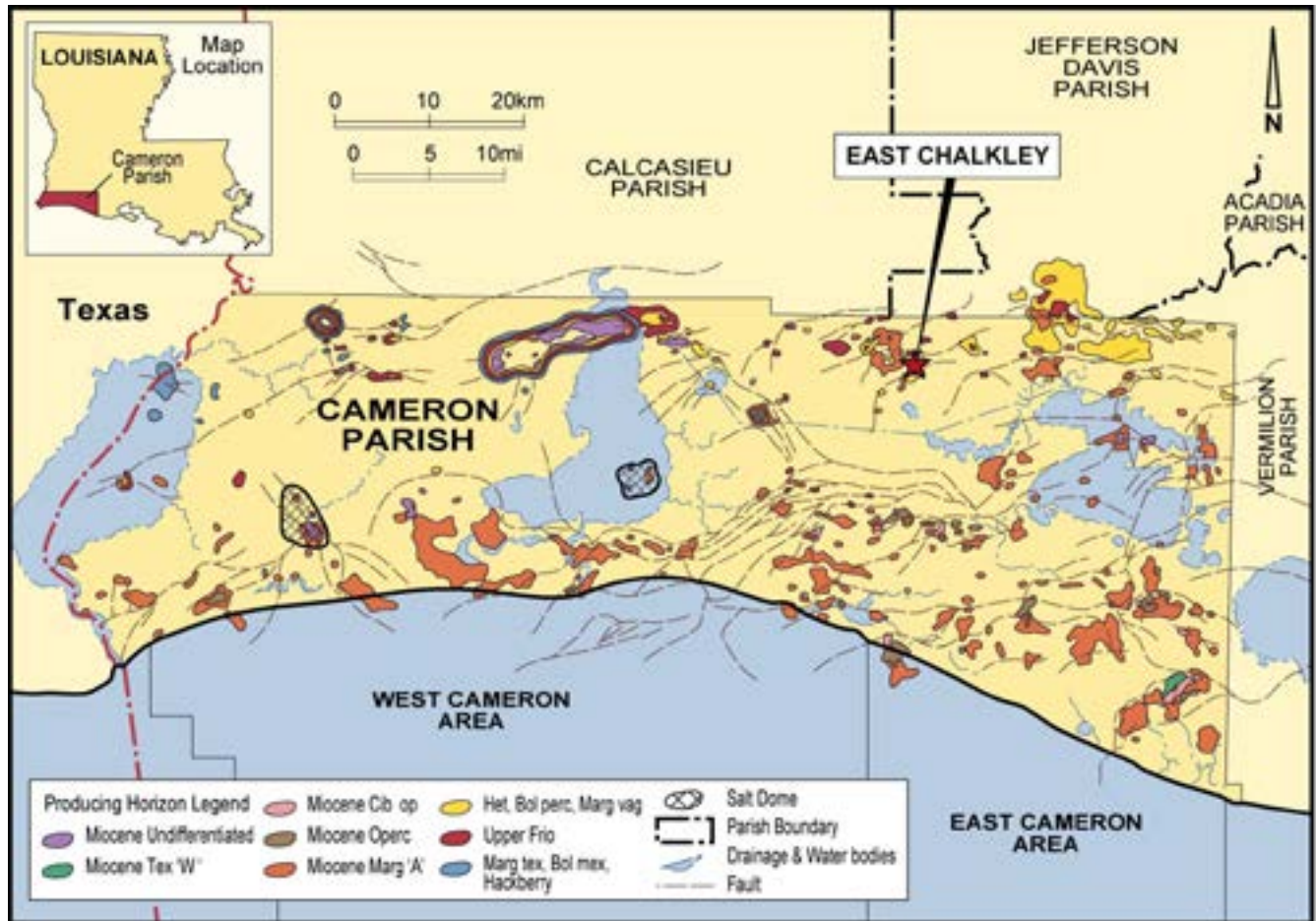


Figure 5: East Chalkley Oil Field – Cameron Parish, Louisiana

At 30 June 2014, the Pine Pasture #1 well had produced 32,713 barrels of oil (including 7,803 barrels of oil since Target purchased an interest in the well). The well remains shut-in due to a suspected hole in the production tubing.

Prior to being shut-in, the well was producing approximately 12-15 BOPD with 145 BWPD. Refer to Figure 5 for the field location.

At 30 June 2014, the Pine Pasture #2 well had produced 106,700 barrels of oil. The well was producing approximately 32 BOPD with 300 BWPD prior to being shut in June 2014 pending a workover.

At 30 June 2014, the Pine Pasture #3 well had produced 740 barrels of oil. The well is presently shut in pending a workover.

ANNUAL RESERVES STATEMENT

Summary

Target Energy's net Reserves and Resources are summarised below (Table 2). The net reserves were independently audited by T.J. Smith and Company (East Chalkley and Fairway) and Michael Harper and Associates (Section 28 and Merta). The effective date of the audits was 30 June 2014. Further details are shown in Tables 3, 4 and 5.

2014 Category	Net Reserves & Resources		BO equiv.
	Oil (Mbbbls)	Gas (MMscf)	(Mboe)
Proved Development Producing (PDP)	101.9	322.3	155.6
Proved Development Not Producing (PDNP)	29.1	192.2	61.2
Proved Undeveloped (PUD)	356.2	964.5	517.0
Total Proved Reserves (1P)	487.2	1479.0	733.7
Probable	173.8	534.7	262.9
Total Proved & Probable Reserves (2P)	661.0	2013.7	996.6
Possible	188.1	604.4	288.8
Total Proved, Probable & Possible Reserves (3P)	849.1	2618.0	1285.4
Low Estimate Contingent Resources	-	-	-
Best Estimate Contingent Resources	334.3	0.0	334.3
High Estimate Contingent Resources	527.5	0.0	527.5
Total Contingent Resources (3C)	861.8	0.0	861.8
Total Reserves & Resources	1,710.8	2,618.0	2,147.2

Table 2. Target Energy total net Reserves and Resources effective 30 June 2014

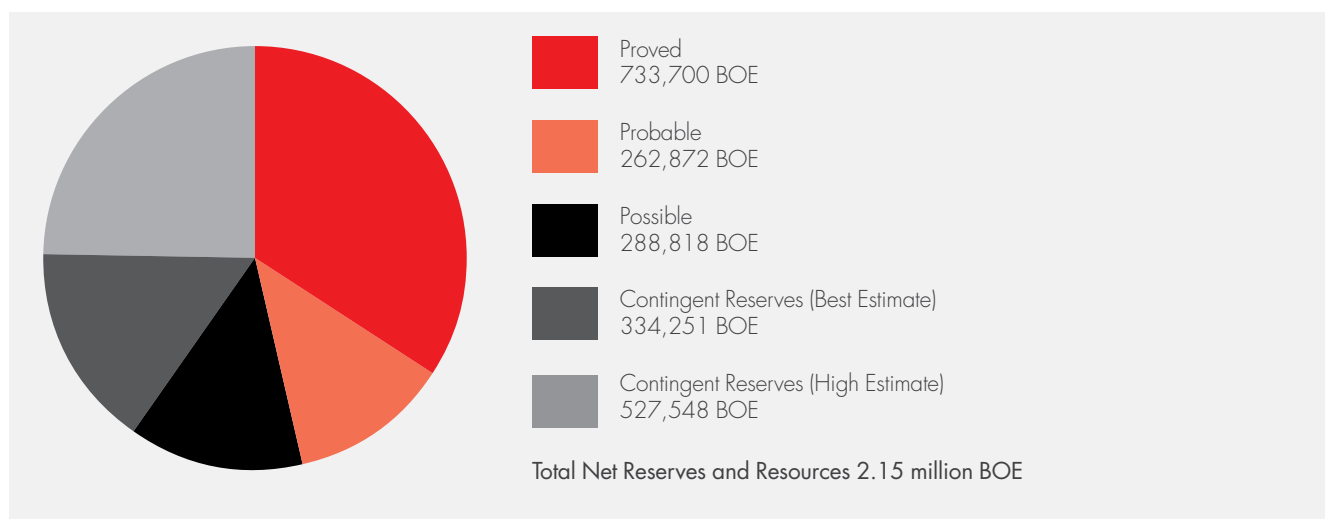


Figure 6: Target Energy net reserves and resources as at 30 June 2014

FAIRWAY PROJECT

Fairway Project Net Reserves

	Net Reserves		BO equiv.
	Oil (Mbbls)	Gas (MMscf)	(Mboe)
Proved Developed Producing	80.7	219.0	117.20
Proved Developed Not Producing	19.1	28.7	23.88
Proved Undeveloped	356.2	964.5	516.95
Total Proved (1P)	456.0	1,212.2	658.03
Probable	152.4	395.4	218.30
Proved & Probable (2P)	608.4	1,607.6	876.33
Possible	159.8	390.2	224.83
Proved, Probable & Possible (3P)	768.2	1,997.8	1,101.17

Table 3. Fairway audited reserves effective 30 June 2014 by T.J. Smith and Company

EAST CHALKLEY

East Chalkley Net Reserves & Resources

	Net Reserves		BO equiv.
	Oil (Mbbls)	Gas (MMscf)	(Mboe)
Proved Developed Producing (PDP)	20.6	61.3	30.8
Proved Developed Not Producing (PDNP)	-	-	-
Proved Undeveloped (PUD)	-	-	-
Total Proved (1P)	20.6	61.3	30.8
Probable	21.1	84.4	35.2
Proved & Probable (2P)	41.7	145.7	66.0
Possible	26.8	107.0	44.6
Proved, Probable & Possible (3P)	68.5	252.7	110.6
Low Estimate Resource	-	-	-
Best Estimate Resource	334.3	-	334.3
High Estimate Resource	527.5	-	527.5
Low, Best and High Estimate Resources (3C)	861.8	-	861.8
Total 3P Reserves and Resources	930.3	252.7	972.4

Table 4. East Chalkley audited reserves effective 30 June 2014 by T.J. Smith and Company; Contingent Resources derived from Independent Technical Specialist's Report on Target Energy Limited's interests in the East Chalkley Field, (August 2012) by Risc Operations Pty Ltd

MERTA & SECTION 28

Other Gulf Coast Net Reserves

	Net Reserves		BO equiv.
	Oil (Mbbls)	Gas (MMscf)	(Mboe)
Proved Developed Producing (PDP)	0.6	42.0	7.6
Proved Developed Not Producing (PDNP)	10.0	163.5	37.3
Proved Undeveloped (PUD)	-	-	-
Total Proved (1P)	10.6	205.5	44.9
Probable	0.3	54.9	9.4
Proved & Probable (2P)	10.9	260.4	54.3
Possible	1.5	107.2	19.4
Proved, Probable & Possible (3P)	12.4	367.6	73.7

Table 5: Section 28 and Merta Audited Reserves effective 30 June 2014 by Mike Harper and Associates

NOTES ON RESERVES & RESOURCES

- Reserves are stated net to Target's working interest and after deductions for royalty payments.
- All reserves and resource estimates were prepared using deterministic methods. All aggregation was performed by arithmetic summation.
- Cautionary note: the aggregate 1P estimate may be a very conservative estimate and the aggregate 3P estimate may be very optimistic due to the portfolio effects of arithmetic summation. Similarly, the aggregate 2C + 3C resource estimate may be very optimistic due to the portfolio effects of arithmetic summation.
- Possible reserves are those reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of the Proved plus Probable plus Possible (3P) reserves.
- TJSCO only audited the Reserves for the East Chalkley Field. The Contingent Resources are derived from the Independent Technical Specialist's Report on Target Energy Limited's interests in the East Chalkley Field, (August 2012) by Risc Operations Pty Ltd.
- Contingent resources are defined as quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable resources as defined in the SPE-PRMS.
- Target reports BOE using a gas to oil conversion based on equivalent thermal energy, i.e. 6000 cubic feet of gas = 1 barrel of oil.

INTERNAL CONTROLS (ASX Listing Rule 5.21.5 Disclosures)

- The reserves estimates undergo an assurance process to ensure that they are technically reasonable given the available data and have been prepared according to our reserves and resources process, which includes adherence to the PRMS Guidelines. The annual reserves report is reviewed by management with the appropriate technical expertise, including the Managing Director.
- The material presented in this report is based on, and fairly represents, information and supporting documentation prepared by, or under the supervision of the listed qualified reserves and resources evaluators.

LEASE-HOLDINGS

Target Energy Lease-holdings	Lease Name	County / Ph	Description	Depth Limitations	TEX WI	Gross acres	Net acres
Fairway							
Tract 1	BOA	Howard	S12, Block 33 T-2S, A-1353, T&P RR Survey	None	50%	640.0	320.0
Tract 2	Darwin	Howard	S 44 N/2, Block 33, T-1S, A-1292, T&P RR Survey	None	50%	320.0	160.0
			S44 S/2, Block 33, T-1S, A-1292, T&P RR Survey	None	60%	320.0	192.0
Tract 3	Bunbury	Howard	S102 A-1405; S103 A-1405; S104 A-1495; Block 29 Waco and Northwestern Survey	None	60%	918.0	550.8
Tract 4	Ballarat	Glasscock	S 184 and 185, Bl 28, A-815 and A-A483, Waco and Northwestern Survey	None	50%	160.0	80.0
			S 184 and 185, Bl 28, A-815 and A-A483, Waco and Northwestern Survey	None	60%	195.7	117.4
Tract 5	Taree	Glasscock	W/2 S193, Bl 28, A-815 and A-A483, Waco and Northwestern Survey	None	60%	320.0	192.0
Tract 6	Sydney	Glasscock	NW/4 & E/2 S 188 Block 29 A-170 W&NW Survey	None	60%	480.0	288.0
Tract 7	"Section 4"	Howard	S4, Block 32, T-2-S, A-1354 T & P RR Co Survey	None	60%	440.0	264.0
Tract 8	Homar	Howard	SE/4 S24 Bl 35 A-1538; SW/4 S26 Bl 35 A-1415; T&P RR Co Survey	None	50%	100.0	50.0
	Homar (Robb)	Howard	SE/4 S24 Bl 35 A-1538; SW/4 S26 Bl 35 A-1415; T&P RR Co Survey	None	60%	160.0	96.0
Tract 9	Wagga Wagga	Glasscock	E/2 S221, Block 29, A-496; W&NW RR Co Survey	None	35%	305.0	106.8
Tract 10	Ballarat West	Glasscock	part NW/4 of S185, Bl 29, W&NW RR Co. Survey, Glasscock County,	None	50%	123.9	62.0
Merta							
	Merta No. 1 Well Gas Unit No. 2	Wharton	S3 A-219 International and Great Northern RR Co Survey	7,650ft - 7,880ft	25%	303.0	75.7
Section 28							
SML #A-1, #A-3	Production Unit	St Martin Ph		None	25%	40.0	10.0
SML #A-2	Production Unit	St Martin Ph		None	25%	40.0	10.0
East Chalkley							
	Unit Agreement: CK W RA SU	Cameron Ph	S11, 13, 14 & 15, T12S-R6W	8,000ft - 10,000ft	35%	714.9	250.2
Total						5580.4	2824.9

NOTE: In accordance with ASX Listing Rules, any hydrocarbon reserves and/or drilling update information in this report has been reviewed and signed off by Mr Laurence Roe, B Sc, Managing Director of Target Energy, who is a member of the Society of Exploration Geophysicists and has over 30 years' experience in the sector. He consents to the inclusion of that information in the form and context in which it appears.

Table 6: Target Energy Lease Holdings



GLOSSARY OF TECHNICAL TERMS

Ac.ft , acre/feet	A measure of rock volume equivalent to 7,758 barrels or 1233.49 cubic metres.
APO	After Payout; Payout being the point at which all costs of leasing, exploring, drilling and operating have been recovered from production of a well or wells as defined by contractual agreement.
AVO	Amplitude versus Offset, or the measure of the amplitude of a seismic reflection event for varying angles of incidence from a reflector, i.e., usually a rock interface. This is a seismic evaluation tool that can be diagnostic for lithology and the presence of hydrocarbons. In a Class 3 anomaly, the amplitude can flip from a positive reflection to a negative one as the distance between the seismic source and receivers increase. This is often a good indicator of gas in the Gulf Coast.
Basin	A depression in the earth's surface containing relatively thick deposits of sedimentary rocks.
BC	Barrels of Condensate.
Bcf, BCF	Billion cubic feet or 28.317 million cubic metres. A unit commonly used in quoting volumes of natural gas.
Bcfe, BCFe	Billions of cubic feet equivalent. A measure of a combined volume of gas and liquids, which is determined using the ratio of one barrel of oil, condensate, or natural gas liquids to 6 MCF of natural gas.
BO	Barrels of oil, a unit of measure commonly used in quoting liquid hydrocarbon volumes. 1 barrel = 42 U.S. gallons, 35 imperial gallons (approx), 159 litres (approx).
BOE	Barrels of oil equivalent. A measure of a combined volume of gas and liquids, which is determined using the ratio of one barrel of oil, condensate, or natural gas liquids to 6 MCF of natural gas.
BOPD	Barrels of Oil per day. A measure of the rate of flow of oil.
BOEPD	BOE per day. A measure of the rate of flow of oil equivalent.
BPO	Before Payout; Payout being the point at which all costs of leasing, exploring, drilling and operating have been recovered from production of a well or wells as defined by contractual agreement.
BTU	British Thermal Unit. The energy required to raise one pound of water by 1° Fahrenheit. A measure of the richness of natural gas.
BWPD	Barrels of water per day.
Casing	Large-diameter steel pipe lowered into an open borehole and cemented in place.
Completion	The process in which a well is enabled to produce hydrocarbons.
Condensate	A hydrocarbon phase, which separates out from natural gas and condenses into liquids when the hydrocarbons are produced.

DHC	Dry hole cost. The cost of drilling a well in the failure case, i.e. where no additional investment in casing, testing or well completion is incurred.
Dry Hole	A well in which no commercial hydrocarbons were discovered.
Exploration well	A well drilled into a previously undrilled or non-commercial trap to test for the presence of a new hydrocarbon accumulation.
Fault	Any brittle failure of rock layers along which rocks are displaced on one side relative to the other.
Field	A subsurface accumulation of hydrocarbons.
Fold	A bend in the rock strata.
Formation	A formal term used to reference a genetically related rock unit (e.g. the Hackberry Formation).
G & G	Geology and geophysics.
Gas kick	A significant increase in gas detector (Hot Wire) response from an increasing concentration of natural gas in the mud system.
Geology	The study of the earth and the processes affecting its crust.
Geophysics	The study of rock properties and stratigraphy through the use of analytical methods involving various types of data collection and interpretation.
GIP	Gas in place. The volume of natural gas stored in a subsurface accumulation. Differs from recoverable reserves in that some of this gas will not be able to be produced.
GOR	Gas oil ratio, the ratio of produced gas to produced oil.
Henry Hub	Located in Louisiana, the Henry Hub is a major natural gas distribution centre, and is the key focal point of natural gas spot and future trading in the U.S. Henry Hub is a widely quoted index of natural gas prices.
Hydrocarbons	A compound of the elements hydrogen and carbon, in either liquid or gaseous form. Natural gas and petroleum are mixtures of hydrocarbons.
Horizon	A term describing a layer of rock, most typically associated with a seismic reflection.
IP	Initial production (rate).
Lead	An undrilled, and therefore hypothetical, hydrocarbon trap, which requires additional technical or commercial analysis before drilling can be justified.
Lithology	The physical, sedimentary, or mineralogical characteristics of a rock.
MBC	Thousands of barrels of condensate. A measure of condensate flow rates from a producing well.
MBO	Thousands of barrels of oil. A measure of oil flow rates from a producing well.
MCF, mcf	Thousand cubic feet. A widely quoted unit used for natural gas measurement.

MCFD, mcf	Thousands of cubic feet per day. A measure of a volume of gas.	Risk	A measure of uncertainty relating to the likelihood of finding hydrocarbons, or, the likelihood that any or all of the individual geological elements required for the accumulation of hydrocarbons is met.
md	A millidarcy. A unit of measure permeability, ie the ability of liquids to flow through a porous solid.	Sandstone	A sedimentary rock composed primarily of sand size grains, usually quartz. A common hydrocarbon reservoir rock.
Measured Depth (MD)	The length of the wellbore, as if determined by a measuring stick. This measurement can differ from the true vertical depth in deviated or angled wellbores.	Seal	An impermeable rock unit that prevents hydrocarbons from escaping from the reservoir.
MMbls, mmbls	Million barrels. A measure of a volume of liquid.	Seismic reflection	An event observed on seismic data that corresponds to a given rock layer in the subsurface
MMBC, mmbc	Millions of barrels of Condensate.	Sediment	Generally, water borne debris that settles out of suspension.
MMBO, mmbo	Millions of barrels of oil.	Sedimentary rock	A type of rock formed by aggregation of sediments.
MMCF, mmcf	Million cubic feet. A widely quoted unit used for natural gas measurement.	Shale	A very fine-grained rock often thinly layered. An important seal rock.
MMCFD, mmcf	Million cubic feet per day. A measure of gas flow rates from a producing well.	Show	An indication while drilling that hydrocarbons are present in the well bore.
MMCFG, mmcf	Million cubic feet of gas. A measure of a volume of gas.	Source/ source rock	An organic rich rock (typically shale) capable of generating hydrocarbons under certain conditions of temperature and pressure.
MMCFGD, mmcf	Millions of cubic feet of gas per day. A measure of the rate of flow of gas.	Spud	To commence drilling operations.
Perforate	To pierce holes through well casing within an oil or gas-bearing formation by means of a perforating gun lowered down the hole and fired electrically from the surface. The perforations permit production from a formation which has been cased off.	Stratigraphy	The study of the vertical and horizontal distribution of stratified rocks, with respect to their age, lateral equivalence and environmental deposition.
Permeability	A measure of the ability of liquids to flow through a porous solid.	Structural trap	Generally, a hydrocarbon trap formed by dipping rock layers and/or faults.
Petroleum	(See Hydrocarbons)	Structure	A geological feature usually higher in elevation than the surrounding rock, formed by local deformation of the rock layers.
Pipeline	A pipe through which any hydrocarbon or its products is delivered to an end user.	TCF	Trillion cubic feet or 28.317 billion cubic metres. A unit commonly used in quoting volumes of natural gas.
Porosity	The percentage of open pore space in a rock.	TD	Total Depth. The final depth reached in drilling the well.
Possible Reserves	Those Unproved Reserves which analysis of geological and engineering data suggests are less likely to be recoverable than Probable Reserves.	Trap	A structure capable of retaining hydrocarbons.
Probable Reserves	Those Unproved Reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable.	Trend	A particular direction in which similar geological features are repeated.
Prospect	An undrilled, and therefore hypothetical trap whose technical and commercial uncertainties are sufficiently well understood and is of sufficient size and probability of success to justify drilling.	TVD	True vertical depth. The vertical distance from a point in the well (usually the current or final depth) to a point at the surface, usually the elevation of the rotary kelly bushing (RKB). The TVD is independent of the actual wellbore path.
Proved or Proven Reserves	Those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations.	Unproved Reserves	Unproved Reserves are based on geological and/or engineering data similar to that used for Proven Reserves but technical, contractual, economic or regulatory uncertainties preclude such reserves being classified as Proven – Unproved Reserves can be classified as Probable Reserves and Possible Reserves.
Recoverable Reserves	That portion of the oil and/or gas in a reservoir that can be removed using currently available techniques.	Working Interest (WI)	Target's percentage interest in a project before royalties and state taxes.
Reserves	The volume of oil and gas that can be recovered at the surface. Generally used in the context of commerciality.		
Reservoir	A porous rock unit in which hydrocarbons occur in an oil field.		



TARGET ENERGY LIMITED ABN 73 119 160 360

Annual Financial Report
FOR THE YEAR ENDED
30 JUNE 2014



DIRECTORS' REPORT



Your directors present their report together with the financial statements of the consolidated entity, comprising Target Energy Limited ("Target" or the "Company") and its controlled entities, for the financial year ended 30 June 2014. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire year unless otherwise stated.

Christopher Rowe

MA

(Non Executive Chairman)

Mr Rowe graduated from Cambridge University in Economics and Law. Mr Rowe practised in the UK and Perth where he consulted to both the oil and gas and hard rock sectors of the resource industry, before becoming the Executive Chairman of Cultus Petroleum N.L. in 1979 where he served until 1990. During his tenure, the company participated in a number of commercial discoveries in Australia, New Zealand and the USA.

Mr Rowe is currently Chairman of ASX listed Northern Star Resources Ltd and he is on the advisory committee of the US-based Hermosa Oil and Gas Production Partnership. He is also the Chairman of fund manager Hawkesbridge Private Equity Pty Ltd and Blue Ocean Monitoring Pty Ltd.

In addition to his resource-related activities Mr Rowe acted as one of the Counsel Assisting the Royal Commission into "W.A. Inc" and has served on the E.P.A of Western Australia as both a member and as Deputy Chairman.

During the last three years, Mr Rowe has also served as a director of the following listed company:

- Northern Star Resources Limited*

* denotes current directorships

Laurence Roe

B.Sc

(Managing Director)

Mr Roe is a petroleum professional with over 25 years experience gained on the industry both in Australian and international projects. He commenced his career with Santos Limited, later taking a senior technical position with Magellan Petroleum Australia Limited, where he was later appointed Exploration Manager. While with Magellan, he had substantial involvement with US and other international projects.

In 1997, Mr Roe left Magellan to start a consulting practice. He has since consulted for numerous Australian explorers, including Santos, Strike Oil, Icon Energy and Hardman Resources Limited. Mr Roe was appointed Exploration Manager for Bounty Oil & Gas NL in 2001, responsible for its portfolio of Australian and international acreage. He was later appointed as Managing Director.

His experience encompasses most Australian sedimentary basins, as well as the USA, New Zealand, Mauritania, Tanzania, Canada, Indonesia, Belize and Argentina.

Mr Roe has no other listed company directorships and has not held any other listed company directorships in the last three years.

Stephen Mann

FCA

(Non Executive Director)

Stephen is a Fellow of the Institute of Chartered Accountants of Australia and has more than 30 years experience as a chartered accountant prior to his retirement from private practice in 2003.

During the last three years, Mr Mann has also served as a director of the following listed company:

- Pegasus Metals Limited (resigned 22 August 2014)

Company Secretary

Rowan Caren,

B.Com CA

Mr Caren graduated with a Bachelor of Commerce (Accounting) from the University of Western Australia and is a member of the Institute of Chartered Accountants in Australia. He qualified with PricewaterhouseCoopers and worked for them in Australia and overseas for six years. He has since been directly involved in the exploration industry for a further 18 years, initially with a minerals explorer based in Perth but with operations in South America and Asia, for which he acted as an executive and company secretary. In 2004 he created a specialist company secretarial and advisory consultancy, Dabinett Corporate Pty Ltd. Dabinett Corporate provides financial and corporate services to several listed and unlisted companies involved in the resources sector.

DIRECTORS' REPORT (continued)

Share Options

Details of unissued ordinary shares under option are as follows:

	Number of options	Exercise price	Expiry date
Unlisted options	25,714,286	7 cents	1 October 2014
Unlisted options	750,000	12 cents	24 October 2014

Nil (2013: 26,077,842) ordinary shares were issued during the financial year as a result of the exercise of options. There are no unpaid amounts on the shares issued.

Interests in the Shares, Options and Convertible Notes of the Company

The following relevant interests in shares and options of the Company or a related body corporate were held by the directors as at the date of this report:

	Fully paid Ordinary Shares	Share Options	Convertible Notes
Christopher Rowe	13,022,180	-	6,100,000
Laurence Roe	8,584,509	-	-
Stephen Mann	21,265,716	-	-
	42,872,405		6,100,000

Dividends

No dividends have been paid or declared since the start of the financial year and the directors do not recommend the payment of a dividend in respect of the financial year.

Principal Activities

The principal activities of the entities within the consolidated entity during the year were the development and production of and exploration for oil and gas in the United States of America. There have been no significant changes in the nature of those activities during the year other than those described below.

Review of operations

During the year, the Company continued to develop, explore and expand its oil and gas prospects in Texas. Production continued from the Fairway wells in Texas. Production continued for part of the period at the Snapper and Pine Pasture wells in Louisiana.

At Fairway, the Company and its partners drilled 8 wells at the Fairway Project in the Permian Basin. Production commenced during or since the end of the reporting period at the Darwin #3, Sydney #2, Wagga Wagga #1, Wagga Wagga #2, BOA 12 #3, BOA North #4 and Homar #1.

Target's share of overall production has increased by 50% from 48,018 BOEPD in the previous financial year to 72,100 BOEPD this financial year. It holds a total of 2,695 net acres in the Permian Basin after adjusting for the 10% divestment noted below.

The Company entered into a contract for sale of a 10% interest in the Fairway Project to Aurora Energy Partners ("Aurora"), a company associated with Victory Energy Corporation (OTCQX: VYFY), on 30 June 2014. The transaction was partially completed on 30 June with Target receiving proceeds of \$2,601,482 (US\$2,449,816). A further \$174,900 (US\$164,738) was received on 31 July 2014. Aurora failed to make the requisite payment of \$2,133,759 (\$1,990,950) for the Second Closing by the agreed date. Subsequent efforts to address the matter did not yield a successful resolution and following Target's advice to Aurora that if the closing was not completed in a timely manner, it intended to withdraw the Second Closing assets from sale, Target was advised by Aurora that it considers the PSA terminated as to the Second Closing assets.

The Company financed its operations this year with the assistance of convertible notes. An initial series of convertible notes (with a face value of 7 cents each) raised \$1.8 million in the second half of 2013. \$1,200,000 of these notes was repaid out of the proceeds of a second series of convertible notes (with a face value of 5 cents each) issued in the first half of 2014. Holders of the balance of the initial series of convertible notes subscribed for the new series of convertible notes in respect of notes having a face value of \$0.6 million. A total of \$4.8 million in fresh capital was raised from the issue of the second series of convertible notes.

Operating results for the year

Net loss attributable to equity holders of the Company for the year ended 30 June 2014 was \$2,928,219 (2013: \$2,791,055). Basic loss per share was 0.6 cents (2013: 0.7 cents)

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the consolidated entity to the date of this report, not otherwise disclosed in this report.

Significant events after balance date

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years, other than;

- Aurora failed to make the requisite payment for the Second Closing by the agreed date. Subsequent efforts to address the matter did not yield a successful resolution and following Target's advice to Aurora that if the closing was not completed in a timely manner, it intended to withdraw the Second Closing assets from sale, Target was advised by Aurora that it considers the PSA terminated as to the Second Closing assets. Refer to Note 1(e) for further details.

- The Company and its partners have drilled the BOA North #5 and Taree #1 wells at the Fairway Project, which are presently awaiting testing.

Likely developments and expected results

The consolidated entity will continue to explore, develop and produce from its projects in Texas and Louisiana. Disclosure of any further information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Therefore, this information has not been presented in this report.

Environmental legislation

The consolidated entity as non-operator is not subject to any significant environmental legislation. In all projects the operator is responsible for ensuring compliance with environmental regulations.

Indemnification and insurance of Directors and Officers

The Company has agreed to indemnify the following current officers of the Group, Mr Rowe, Mr Roe, Mr Mann and Mr Caren, against all liabilities to another person (other than the Company or related body corporate) that may arise from their position as officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the Company or related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses. The total amount of premium paid was \$24,225.

Directors' Meetings

The number of meetings of directors held during the year and the number of meetings attended by each director was as follows:

Director	Directors' Meetings	
	A	B
Christopher Rowe	6	6
Laurence Roe	6	6
Stephen Mann	6	6

A - meetings attended

B - meetings held whilst a director

Proceedings on behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

DIRECTORS' REPORT (continued)

Auditor Independence and Non-Audit Services

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the financial report. This Independence Declaration is located on page 32 of this report and forms part of this directors' report for the year ended 30 June 2014.

Non-Audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 19 to the financial statements. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the impartiality and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110: Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

Remuneration report

This report, which forms part of the directors' report, outlines the remuneration arrangements in place for the key management personnel ("KMP") of the Company for the financial year ended 30 June 2014. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for KMP who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company.

Key Management Personnel

Directors

Christopher Rowe	Non Executive Chairman
Laurence Roe	Managing Director
Stephen Mann	Non Executive Director

The Remuneration Report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration
- B. Details of remuneration for the year ended 30 June 2014
- C. Service agreements
- D. Share-based compensation

A. Principles used to determine the nature and amount of remuneration

Remuneration philosophy

The performance of the consolidated entity depends upon the quality of its directors and executives. To prosper, the consolidated entity must attract, motivate and retain highly skilled directors and executives.

To this end, the consolidated entity embodies the following principles in its compensation framework:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation;
- significant portion of executive compensation 'at risk', dependent upon meeting pre-determined performance benchmarks; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

Remuneration may consist of fixed remuneration and variable remuneration.

Fixed Remuneration

Fixed remuneration is reviewed annually by the Board of Directors. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices.

Variable Remuneration

Each of the directors holds a significant number of shares. The board does not consider it necessary at the present time to take additional steps to link the remuneration of Directors with the creation of shareholder wealth. Given the current structure, there exists a direct link between the creation of shareholder wealth performance and the financial rewards for the directors.

Remuneration Reviews

The Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and all other key management personnel. The Board of Directors assesses the appropriateness of the nature and amount of compensation of key management personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Remuneration structure

In accordance with best practice Corporate Governance, the structure of non-executive director and executive remuneration is separate and distinct. No remuneration consultants were used.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level that provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 19 November 2009 when shareholders approved an aggregate remuneration of \$300,000 per year. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. The compensation of directors for the period ending 30 June 2014 is detailed below in Table B.

Senior manager and executive director remuneration

Objective

The entity aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the entity so as to:

- align the interests of executives with those of shareholders;
- link rewards with the strategic goals and performance of the company; and
- ensure total compensation is competitive by market standards.

Compensation consists of the following key elements:

- fixed compensation;
- variable compensation; and
- long term incentive (LTI).

The proportion of fixed compensation and variable compensation (potential short term and long term incentives) is established for each key management person by the Directors.

Fixed Compensation

Objective

Fixed compensation is reviewed annually by the Directors. The process consists of a review of individual performance, relevant comparative compensation in the market and internally and, where appropriate, external advice on policies and practices.

Structure

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans.

Variable Pay — Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward executives in a manner that aligns this element of compensation with the creation of shareholder wealth. As such LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdle.

Structure

LTI grants to key management personnel are delivered in the form of shares. No LTI grants have been made in the year.

DIRECTORS' REPORT (continued)

B. Details of remuneration for the year ended 30 June 2014

		Primary benefits		Post employment	Equity	Total	%
		Salary & Fees	Non Monetary Benefits	Superannuation	Options		Performance related
		\$	\$	\$	\$		
Directors							
Christopher Rowe	2014	70,000	-	-	-	70,000	-
	2013	88,000	-	-	-	88,000	-
Laurence Roe	2014	334,165	-	30,910	-	365,075	-
	2013	316,165	-	28,455	-	344,620	-
Stephen Mann	2014	55,046	-	5,092	-	60,138	-
	2013	55,046	-	4,954	-	60,000	-
Graham Riley ¹	2014	-	-	-	-	-	-
	2013	15,000	-	-	-	15,000	-
Total Directors	2014	459,211	-	36,002	-	495,213	-
	2013	474,211	-	33,409	-	507,620	-

¹ Director until 5 October 2012.

C. Service agreements

Employment Contract

The Managing Director, Mr Laurence Roe is employed under contract. The current employment contract has been extended to 31 December 2014. An annual remuneration review is undertaken.

The main terms of the employment contract with Mr Roe are as follows:

- Remuneration of \$334,165 pa plus superannuation.
- Either party is entitled to terminate the agreement by six months notice.
- On termination, other than for cause, the Company will be obliged to make a payment equivalent to six months' salary.
- 12 weeks long service leave is due after 7 years of continuous service. Mr Roe has been employed by the Company since October 2006.

D. Share-based compensation

During the financial year there were no options granted as equity compensation benefits under a long-term incentive plan to key management personnel.

E. Compensation options: Granted and vested during the year

No compensation options were granted to key management personnel during the year.

F. Shares issued on Exercise of Compensation Options

No compensation options were exercised by key management personnel during the year.

G. Option holdings of Key Management Personnel - Unlisted

	Balance at 1 July 2013	Options Expired	Options Exercised	Balance at 30 June 2014	Vested and exercisable at 30 June 2014
Directors					
Christopher Rowe	1,679,836	(1,679,836)	-	-	-
Laurence Roe	371,211	(371,211)	-	-	-
Stephen Mann	631,250	(631,250)	-	-	-
	2,682,297	(2,682,297)	-	-	-

	Balance at 1 July 2012	Options Expired	Options Exercised	Balance at 30 June 2013	Vested and exercisable at 30 June 2013
Directors					
Christopher Rowe	1,679,838	-	(2)	1,679,836	1,679,836
Laurence Roe	742,422	-	(371,211)	371,211	371,211
Graham Riley	2,256,249	-	-	2,256,249	2,256,249
Stephen Mann	631,250	-	-	631,250	631,250
	5,309,759	-	(371,213)	4,938,546	4,938,546

H. Option holdings of Key Management Personnel – Listed (expired 31 October 2013)

	Balance at 1 July 2013	Granted as remuneration	Options Expired	Options Exercised	Balance at 30 June 2014
Directors					
Christopher Rowe	-	-	-	-	-
Laurence Roe	-	-	-	-	-
Stephen Mann	-	-	-	-	-
	-	-	-	-	-

	Balance at 1 July 2012	Granted as remuneration	Options Expired	Options Exercised	Balance at 30 June 2013
Directors					
Christopher Rowe	500,000	-	-	(500,000)	-
Laurence Roe	352,727	-	-	(352,727)	-
Stephen Mann	1,500,000	-	-	(1,500,000)	-
	2,352,727	-	-	(2,352,727)	-

DIRECTORS' REPORT (continued)

I. Shareholdings of Key Management Personnel

	Balance at 1 July 2013	Acquired off market	On exercise of Options	Acquired on market	Note conversion	Balance at 30 June 2014
Directors						
Christopher Rowe	12,022,180	-	-	1,000,000	-	13,022,180
Laurence Roe	8,584,509	-	-	-	-	8,584,509
Stephen Mann ¹	6,306,250	14,959,466	-	-	-	21,265,716
	26,912,939	14,959,466	-	1,000,000	-	42,872,405

¹ Shares acquired as a result of the transfer of Target securities to Investmet shareholders whose Investmet shares were bought back pursuant to the Investmet Limited selective share buy-back.

	Balance at 1 July 2012	Acquired off market	On exercise of Options	Acquired on market	Note conversion	Balance at 30 June 2013
Directors						
Christopher Rowe	9,365,200	-	500,002	956,978	1,200,000	12,022,180
Laurence Roe	7,060,571	-	723,938	-	800,000	8,584,509
Graham Riley	11,281,241	6,970,564	-	738,548	-	18,990,353
Stephen Mann	4,806,250	-	1,500,000	-	-	6,306,250
	32,513,262	6,970,564	2,723,940	1,695,526	2,000,000	45,903,292

All equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the consolidated entity would have adopted if dealing at arm's length.

J. Convertible Notes held by Key Management Personnel

	Balance at 1 July 2013	Issued	Converted	Repaid	Balance at 30 June 2014
Directors					
Christopher Rowe	-	6,100,000	-	-	6,100,000
Laurence Roe	-	-	-	-	-
Stephen Mann	-	-	-	-	-
	-	6,100,000	-	-	6,100,000

Notes have a 5 cent face value, are each convertible into one ordinary share and have a maturity date of 31 March 2017.

	Balance at 1 July 2012	Issued	Converted	Repaid	Balance at 30 June 2013
Directors					
Christopher Rowe	60,000	-	(60,000)	-	-
Laurence Roe	40,000	-	(40,000)	-	-
Stephen Mann	-	-	-	-	-
	100,000	-	(100,000)	-	-

Notes had a \$1.00 face value, were each convertible into 20 ordinary shares at a conversion price of 5 cents each and had a maturity date of 19 November 2012.

K. Interest Paid or Payable to Key Management Personnel on Convertible Notes

	2014	2013
Directors	\$	\$
Christopher Rowe	6,768	2,320
Laurence Roe	-	1,547
	6,768	3,867

L. Loans to Key Management Personnel

No loans have been provided to key management personnel during the year.

M. Other Transactions and balances with Key Management Personnel

An entity, of which Mr. Rowe is a director and shareholder, provided geophysical consulting services to the Company. The services were provided on arms length terms for a total of \$8,715 (2013: \$17,000).


The Company paid living expenses in relation to the relocation of Mr Roe to the USA including the cost of an apartment in Houston. These expenses totaled \$69,971 (2013: \$72,768).

An entity of which Mr Graham Riley was trustee and beneficiary provided underwriting services to the Company in the previous financial year. Total fees paid were \$Nil (2013: \$42,736).

N. Amounts payable to Key Management Personnel at year end

An amount of \$5,833 (2013: \$5,833) was payable at year end to an entity, of which Mr. Rowe is a director and shareholder. Interest of \$6,768 (2013: \$Nil) was payable at year end to an entity, of which Mr. Rowe is a director and shareholder.

Signed in accordance with a resolution of the directors



Laurence Roe
Managing Director
Perth, 30 September 2014

AUDITOR'S INDEPENDENCE DECLARATION



Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Target Energy Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

Perth, Western Australia
30 September 2014

A handwritten signature in blue ink, appearing to read 'M R W Ohm'.

M R W Ohm
Partner

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
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Email: hlb@hlbwa.com.au. Website: <http://www.hlb.com.au>
Liability limited by a scheme approved under Professional Standards Legislation

HLB Mann Judd (WA Partnership) is a member of  international, a worldwide organisation of accounting firms and business advisers.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

		Consolidated	
	Note	2014	2013
		\$	\$
Continuing operations			
Revenue	2	4,389,649	2,295,383
Other income	2	657,376	438
		5,047,025	2,295,821
Oil and gas production expenses and taxes		(1,112,081)	(611,217)
Accounting expense		(53,825)	(60,694)
Audit fees		(102,778)	(81,040)
Consultants		(256,234)	(277,896)
Depreciation expense		(44,979)	(47,626)
Directors' fees		(195,505)	(237,758)
Employee benefits expense		(627,264)	(383,511)
Amortisation of oil and gas properties	8	(1,974,737)	(1,218,886)
Impairment of oil and gas properties	8	(2,256,453)	-
Impairment of exploration and development expenditure	9	(46,942)	(1,104,533)
Foreign exchange gain/ (loss)		6,296	(9,351)
Interest expense		(337,123)	(137,694)
Legal expenses		(74,786)	(108,202)
Listing fees		(107,734)	(55,113)
Office expense		(201,617)	(181,094)
Share-based payments	10	-	(11,876)
Promotional expenses		(201,631)	(111,510)
Other expenses		(202,565)	(235,946)
Share registry expense		(11,336)	(13,267)
Travel and accommodation		(173,950)	(199,662)
Loss from continuing operations before income tax expense		(2,928,219)	(2,791,055)
Income tax expense	3(a)	-	-
Loss from continuing operations after income tax expense		(2,928,219)	(2,791,055)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(647,277)	2,038,466
Total comprehensive loss		(3,575,496)	(752,589)
Basic loss per share (cents per share)	4	(0.6)	(0.7)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

		Consolidated	
	Note	2014	2013
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	5	3,719,166	1,537,700
Trade and other receivables	6	1,315,784	1,976,843
Other financial assets	7	50,000	50,000
Total Current Assets		5,084,950	3,564,543
NON-CURRENT ASSETS			
Property, plant and equipment	8	17,049,176	14,121,545
Deferred exploration, evaluation and development expenditure	9	-	10,046
Total Non-Current Assets		17,049,176	14,131,591
TOTAL ASSETS		22,134,126	17,696,134
CURRENT LIABILITIES			
Trade and other payables	11	3,289,766	1,038,157
Total Current Liabilities		3,289,766	1,038,157
NON CURRENT LIABILITIES			
Convertible notes	12	4,970,472	-
Total Non Current Liabilities		4,970,472	-
TOTAL LIABILITIES		8,260,238	1,038,157
NET ASSETS		13,873,888	16,657,977
EQUITY			
Issued capital	13	33,492,432	33,492,432
Reserves	14	1,300,525	1,156,395
Accumulated losses		(20,919,069)	(17,990,850)
TOTAL EQUITY		13,873,888	16,657,977

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

		Consolidated	
	Note	2014	2013
		\$	\$
		Inflows/(Outflows)	
Cash Flows from Operating Activities			
Receipts from customers		4,335,837	1,413,481
Payments to suppliers and employees		(3,263,545)	(2,737,450)
Interest received/(paid)		(114,822)	(122,420)
Net cash provided by / (used in) operating activities	5(ii)	957,470	(1,446,389)
Cash Flows from Investing Activities			
Exploration and development expenditure		(37,188)	(208,183)
Proceeds from sale of property, plant and equipment		2,541,812	-
Purchase of property, plant and equipment		(6,694,512)	(5,613,267)
Net cash (used in) investing activities		(4,189,888)	(5,821,450)
Cash Flows from Financing Activities			
Proceeds from borrowings		7,200,000	-
Repayment of borrowings		(1,200,000)	-
Proceeds from issue of shares		-	8,356,069
Borrowing expenses		(312,584)	-
Share issue expenses		(42,736)	(223,719)
Net cash provided by financing activities		5,644,680	8,132,350
Net increase in cash held		2,412,262	864,511
Cash at the beginning of the financial year		1,537,700	682,540
Effect of exchange rate changes on the balance of cash held in foreign currencies		(230,796)	(9,351)
Cash at the end of the financial year	5	3,719,166	1,537,700

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

Consolidated Group	Issued Capital	Accumulated Losses	Option Reserve	Share-Based Payments Reserve	Convertible Notes - Equity Component Reserve	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$		\$	\$
Balance at 1 July 2012	24,882,293	(15,199,795)	340,000	251,579	-	(1,485,526)	8,788,551
Shares issued during the year	8,855,719	-	-	-	-	-	8,855,719
Share issue costs	(245,580)	-	-	-	-	-	(245,580)
Employee share issued during the period	-	-	-	11,876	-	-	11,876
Loss for the year	-	(2,791,055)	-	-	-	-	(2,791,055)
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	-	2,038,466	2,038,466
Balance at 30 June 2013	33,492,432	(17,990,850)	340,000	263,455	-	552,940	16,657,977
Balance at 1 July 2013	33,492,432	(17,990,850)	340,000	263,455	-	552,940	16,657,977
Equity Component of Convertible Notes issued during the year	-	-	-	-	791,407	-	791,407
Loss for the year	-	(2,928,219)	-	-	-	-	(2,928,219)
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	-	(647,277)	(647,277)
Balance at 30 June 2014	33,492,432	(20,919,069)	340,000	263,455	791,407	(94,337)	13,873,888

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

The company is an ASX listed public company, incorporated in Australia and operating in Australia and the United States of America. The principal activities were the exploration for and production of oil and gas in the United States of America.

(b) Adoption of new and revised standards

In the year ended 30 June 2014, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the current annual reporting period.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Company and, therefore, no material change is necessary to the consolidated entity's accounting policies.

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2014. As a result of this review the Directors have determined that there is no material impact, of the new and revised Standards and Interpretations on the Company and, therefore, no change is necessary to the consolidated entity's accounting policies.

(c) Statement of Compliance

The financial report was authorised for issue on 30 September 2014.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(d) Basis of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Target Energy Limited as at 30 June 2014 and the results of all subsidiaries for the year then ended. Target Energy Limited and its subsidiaries are referred to in this financial report as the group or the consolidated entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity.

Business combinations have been accounted for using the acquisition method of accounting.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 'Financial Instruments: Recognition and Measurement' or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

(e) Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements (apart from those involving estimations, which are dealt with below), that management has made in the process of applying the consolidated entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Treatment of exploration and development expenditures

The consolidated entity is currently capitalising exploration and development expenditures on various tenements until such time as production has commenced or the area of interest is deemed unlikely to yield benefits either through successful exploitation or sale, at which stage the costs will be recognised in profit and loss.

Management has considered the existence of any indicators of impairment in relation to its capitalised exploration and development properties. In making their impairment assessment, management compared the carrying amount of each cash-generating unit to its recoverable amount. Value-in-use was used to determine recoverable amount and this was based upon PV10 discounted cash flows. Based upon this review, a total of \$2,256,453 has been recorded as an impairment expense in the statement of comprehensive income in relation to East Chalkley. There has been no change in the way cash-generating units have been identified since the prior period.

Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the consolidated entity's properties. In order to calculate reserves, estimates and assumptions are required about a large range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operation, estimates of reserves may change from period to period. Changes in reported reserves may affect the consolidated entity's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charged in the statement of comprehensive income may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change; and
- Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled share-based payments at fair value at the grant date using an option pricing model, taking into account the terms and conditions upon which the instruments were granted.

Sale of Interest in Fairway Project

On June 30, 2014, the Company completed a purchase and sale agreement ("Agreement") to sell an undivided 10% working interest in its Fairway Project to Aurora Energy Partners for \$6,108,991 (US\$5,754,059) (which was subsequently reduced by \$1,219,402 (US\$1,148,555) to exclude the Sydney tract from the sale for a net sale price of \$4,889,589 (US\$4,605,504).

The transaction was structured in two closings, the first of which occurred on June 30, 2014 for which the Company received total initial proceeds of \$2,600,930 (US\$2,449,816) on June 30, 2014 and a subsequent payment of \$174,900 (US\$164,738) on July 31, 2014. The Second Closing for the balance of \$2,113,759 (US\$1,990,950) was originally scheduled for July 31, 2014 however, the Company agreed to allow Aurora more time to complete its review of the operator lease documentation, the contract rights assigned, and to remedy residual issues. The parties agreed to extend the Second Closing date to 10 September 2014, at which time the Company rendered the required pre-closing statement to Aurora. Aurora failed to make the requisite payment for the Second Closing by the agreed date. Subsequent efforts to address the matter did not yield a successful resolution and following Target's advice to Aurora that if the closing was not completed in a timely manner, it intended to withdraw the Second Closing assets from sale, Target was advised by Aurora that it considers the PSA terminated as to the Second Closing assets.

The Company believes that it has met requirements for the conveyance of all interests acquired by Aurora, except for specific interests agreed by the parties to be excluded from the closings and believes Aurora is obligated to complete the Second Closing. As a result of numerous delays in the Second Closing, the Company recorded a gain on the sale of the Fairway interests up to the amount of the proceeds received resulting in a gain of \$642,376 (US\$589,637) at June 30, 2014 due to uncertainty as to the timing, completion and the unlikelihood of receipt of payment from Aurora associated with the Second Closing.

In the event the Company receives the payment for the second tranche of the Agreement under the same terms of the original Agreement, the Company would recognize an additional gain on the sale of up to \$2,113,759 (US\$1,990,950); but management does not believe that the Company will be paid by Aurora for the Second Closing properties. The Company is currently considering legal remedies available for Aurora's failure to fund the Second Closing properties pursuant to the Agreement.

(f) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured.

Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Oil and Gas Production Revenue

Oil and gas production revenue is recognised when the significant risks and rewards of ownership have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the product to the buyer.

Sale of Oil and Gas Properties

Revenue is recognised when the titles have passed at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the properties;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties sold;
- The amount of revenue can be estimated reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

(g) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

(h) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within periods ranging from 30 to 90 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original contractual terms. Factors considered by the consolidated entity in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the consolidated entity. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(i) De-recognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised when:

- the rights to receive cash flows from the asset have expired;
- the consolidated entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the consolidated entity has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the consolidated entity has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the consolidated entity's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the consolidated entity could be required to repay.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(i) Impairment of financial assets

The consolidated entity assesses at each balance date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The consolidated entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(k) Foreign currency translation

Both the functional and presentation currency of Target Energy Limited is Australian dollars. Each entity in the consolidated entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the foreign operations, TELA USA Inc, TELA Garwood Limited LP and TELA Louisiana Limited Inc, is United States dollars (US\$). As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of Target Energy Limited at the rate of exchange ruling at the balance date and their statements of comprehensive income are translated at the average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

(I) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(m) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Oil and Gas production revenues are recognised gross of the amount of production and severance taxes and a separate expense for production and severance taxes is recognised.

(n) Property, plant and equipment

Oil and gas properties include construction, installation or completion of infrastructure facilities such as pipelines, capitalised borrowing costs, transferred exploration and evaluation costs, and the cost of development wells.

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Office Equipment – over 5 to 8 years
- Motor Vehicles – over 4 years
- Computer Equipment – over 2.5 years
- Oil and Gas Software – over 4 years
- Website – over 10 years

Amortisation is calculated on a unit of production basis as follows:

- Oil and Gas Properties – over the life of proved reserves

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired. The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. For property, plant and equipment, impairment losses are recognised in the statement of comprehensive income in the amortisation and impairment of oil & gas properties.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

(o) Financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The consolidated entity determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the consolidated entity commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the consolidated entity has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

(p) Impairment of assets

The consolidated entity assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the consolidated entity makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(q) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

(r) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

(s) Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the consolidated entity expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

(t) Employee leave benefits

(i) Wages, salaries, annual leave and personal leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating personal leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating personal leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(u) Share-based payment transactions

(i) Equity settled transactions:

The consolidated entity has provided benefits to employees (including senior executives) of the consolidated entity in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using an option pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price and liquidity of the shares of Target Energy Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the consolidated entity's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition. If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 4).

(v) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(w) Earnings/(loss) per share

Basic earnings/(loss) per share is calculated as net profit/(loss) attributable to members of the company, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings/(loss) per share is calculated as net profit/(loss) attributable to members of the company, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(x) Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure in relation to separate areas of interest for which rights of tenure are current, are capitalised in the period in which they are incurred and are carried at cost less accumulated impairment losses. The cost of acquisition of an area of interest and exploration expenditure relating to that area of interest are carried forward as an asset in the Statement of Financial Position so long as the following conditions are satisfied:

(i) the rights to tenure of the area of interest are current; and

(ii) at least one of the following conditions is also met:

- the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Exploration and evaluation expenditure is assessed for impairment when facts and circumstances suggest that their carrying amount exceeds their recoverable amount and where this is the case an impairment loss is recognised. Should a project or an area of interest be abandoned, the expenditure will be written off in the period in which the decision is made.

Once an area of interest enters a production phase all capitalised expenditure in relation to that area of interest is transferred to Development Expenditure. Capitalised Development Expenditure is not amortised. Capitalised Development Expenditure is assessed for impairment when the facts and circumstances suggest their carrying amount exceeds their recoverable amount and where this is the case an impairment loss is recognised. Once a proven and probable reserve is determined, all capitalised expenditure is transferred to Oil and Gas Properties.

(y) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company.

(z) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(aa) Parent entity financial information

The financial information for the parent entity, Target Energy Limited, disclosed in note 23 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the parent entity's financial statements. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Share-based payments

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

(ab) Going Concern

For the year ended 30 June 2014, the Group had a net cash outflow from operating and investing activities of \$3,232,418 and incurred a net loss for the year of \$2,928,219.

In addition, the Company raised \$6,000,000 of debt funding in March 2014 via a convertible note. The notes have a maturity date of 31 March 2017.

The Board considers that the Group is a going concern and recognises that additional funding is required to ensure that it can continue to fund its operations and further develop its oil and gas assets in the USA during the twelve month period from the date of approval of the financial reports. Such additional funding may be derived from one or a combination of the following:

- the placement of securities under ASX listing Rule 7.1 or otherwise;
- an excluded offer pursuant to the Corporation's Act 2001;
- further debt funding;
- revenue from oil and gas wells; or
- the sale of assets.

Additionally, whilst not desirable, certain planned capital expenditures can be deferred to the extent considered necessary to match the availability of the funding.

Accordingly, the Directors believe that the Group will obtain sufficient funding to enable it to continue as a going concern and that it is appropriate to adopt that basis of accounting in the preparation of the financial report. Should the Group be unable to obtain sufficient funding as outlined above, there is a material uncertainty that may cast significant doubt whether it will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classifications of liabilities that might be necessary should it not continue as a going concern.

NOTE 2: REVENUE

	Consolidated	
	2014	2013
	\$	\$
Revenue		
Oil and Gas income	4,383,096	2,280,110
Interest received - other	6,553	15,273
Total revenue	4,389,649	2,295,383
Profit on Sale of Oil and Gas Property ¹	642,376	-
Other income	15,000	438
Total other income	657,376	438
	5,047,025	2,295,821

1. The Company entered into a contract for sale of a 10% interest in the Fairway Project to Aurora Energy Partners ("Aurora"), a company associated with Victory Energy Corporation (OTCQX: VYFY), on 30 June 2014. Target receiving proceeds of \$2.54 million, with a further \$0.16 million of consideration received in July 2014. The cost of the assets disposed was \$2.05 million. Refer to Note 1(e) for further details.

NOTE 3: INCOME TAX

(a) Income tax recognised in profit/loss

No income tax is payable by the company or consolidated entities as they have recorded losses for income tax purposes for the year.

(b) Numerical reconciliation between income tax expense and the loss before income tax.

The prima facie income tax benefit on pre-tax accounting loss from operations reconciles to the income tax benefit in the financial statements as follows:

	Consolidated	
	2014	2013
	\$	\$
Accounting loss before tax	(2,928,219)	(2,791,055)
Income tax benefit/(expense) at 30%	878,466	837,316
Non-deductible expenses:		
Foreign tax rate adjustment	481,381	357,700
Foreign exchange gain / (loss)	292,138	(909,648)
Option / share issue expense	-	(3,563)
Other non deductible expenses	(1,650)	(1,537)
Unrecognised tax losses	(1,650,335)	(280,268)
Income tax benefit attributable to loss from ordinary activities before tax	-	-

(c) Unrecognised deferred tax balances

Tax losses attributable to members of the consolidated group - revenue	41,264,178	36,279,261
Potential tax benefit at 30%	12,379,253	10,883,778

Deferred tax liability not booked

Deferred exploration expenditure and oil & gas properties	(5,086,157)	(4,207,848)
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Deferred tax asset not booked

Amounts recognised in profit & loss		
- employee provisions	5,817	3,072
- other	120,096	60,285
Amounts recognised in equity		
- share issue costs	93,280	93,488
Net unrecognised deferred tax asset at 30%	7,512,289	6,832,775

A deferred tax asset attributable to income tax losses has not been recognised at balance date as the probability criteria disclosed in Note 1(l) is not satisfied and such benefit will only be available if the conditions of deductibility also disclosed in Note 1(l) are satisfied.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

NOTE 4: EARNINGS/(LOSS) PER SHARE

	Consolidated Group	
	2014	2013
	Cents	Cents
Basic loss per share (cents per share)	(0.6)	(0.7)

The loss and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

Loss for the year	(2,928,219)	(2,791,055)
Weighted average number of shares outstanding during the year used in calculations of basic loss per share	453,746,588	405,351,916

Diluted loss per share

There is no dilution of shares due to options as the potential ordinary shares are not dilutive and are therefore not included in the calculation of diluted loss per share

NOTE 5: CASH AND CASH EQUIVALENTS

	Consolidated	
	2014	2013
	\$	\$
Cash at bank	3,719,061	1,537,471
Cash on hand	105	229
	3,719,166	1,537,700

Cash at bank earns interest at floating rates based on daily bank deposit rates

(i) Reconciliation to the Statement of Cash Flows

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank.

Cash and cash equivalents as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:

Cash and cash equivalents	3,719,166	1,537,700
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(ii) Reconciliation of loss after income tax to net cash flows from operating activities:

Loss after income tax	(2,928,219)	(2,791,055)
Depreciation	44,979	47,626
Amortisation and impairment	4,278,132	2,323,419
Share-based payments	-	11,876
Gain on sale of property, plant and equipment	(642,376)	-
Net foreign exchange (gain)/loss	(6,296)	9,351
	746,220	(398,783)

Changes in operating assets and liabilities, net of the effects of purchase of subsidiaries:

(Increase)/decrease in trade and other receivables	(67,588)	(908,689)
(Decrease)/increase in trade and other payables	203,785	(140,584)
(Decrease)/increase in employee benefits	75,053	1,667
Net cash outflow from operating activities	957,470	(1,446,389)

NOTE 6: TRADE AND OTHER RECEIVABLES

	Consolidated	
	2014	2013
	\$	\$
Current		
Trade receivables	1,073,944	1,011,685
Prepayments	11,548	11,149
Cash calls	-	911,446
GST recoverable	17,271	12,643
Amount due on sale of oil and gas properties	174,900	-
Other receivables	316,521	316,630
Impairment of other receivables	(278,400)	(286,710)
	1,315,784	1,976,843

The average credit period on sales of goods and rendering of services is 30-90 days.

No interest is charged.

Ageing of impaired other receivables

60 – 90 days	-	-
90 – 120 days	-	-
120 + days	278,400	286,710
Total	278,400	286,710

NOTE 7: OTHER FINANCIAL ASSETS

	Consolidated	
	2014	2013
	\$	\$
Current		
Term deposit	50,000	50,000
	50,000	50,000

The term deposit is held as security by a bank, on behalf of the Company, in respect of a credit card facility for a total of \$50,000.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

NOTE 8: PROPERTY, PLANT AND EQUIPMENT

	Consolidated						
	Office Equipment	Computer Equipment	Motor Vehicles	Oil & Gas Software	TEX Website	Oil & Gas Properties	Total
	\$	\$	\$	\$	\$	\$	\$
Year ended 30 June 2014							
At 1 July 2013, net of accumulated depreciation/amortisation	50,780	10,388	23,945	12,382	7,936	14,016,114	14,121,545
Effect of movements in foreign exchange	(1,568)	(1,188)	(363)	(224)	(308)	(406,240)	(409,891)
Additions	25,328	7,526	-	-	5,664	9,649,509	9,688,027
Sale of Oil & Gas Properties	-	-	-	-	-	(2,074,336)	(2,074,336)
Impairment for the year	-	-	-	-	-	(2,256,453)	(2,256,453)
Depreciation/amortisation for the year	(20,025)	(4,180)	(12,969)	(5,245)	(2,560)	(1,974,737)	(2,019,716)
At 30 June 2014, net of accumulated depreciation and amortisation	54,515	12,546	10,613	6,913	10,732	16,953,857	17,049,176
At 30 June 2013							
Cost	107,566	74,253	52,084	21,058	8,818	20,739,062	21,002,841
Accumulated depreciation/amortisation	(56,786)	(63,865)	(28,139)	(8,676)	(882)	(6,722,948)	(6,881,296)
Net carrying amount	50,780	10,388	23,945	12,382	7,936	14,016,114	14,121,545
At 30 June 2014							
Cost	130,223	58,077	50,575	20,448	14,083	27,438,946	27,712,352
Accumulated depreciation/amortisation	(75,708)	(45,531)	(39,962)	(13,535)	(3,351)	(10,485,089)	(10,663,176)
Net carrying amount	54,515	12,546	10,613	6,913	10,732	16,953,857	17,049,176
The useful life of the assets was estimated as follows for 2014:							
Office Equipment	5 to 8 years						
Computer Equipment	2.5 years						
Oil & Gas Software	4 years						
Motor Vehicles	4 years						
TEX Website	10 years						
Oil & Gas Properties	Units of production						



NOTE 9: DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

	Consolidated	
	2014	2013
	\$	\$
Costs carried forward in respect of:		
Exploration and evaluation phases - at cost		
Balance 1 July	10,046	5,327,920
Effects of movements in foreign exchange	(292)	591,279
Expenditure incurred	37,188	121,704
	46,942	6,040,903
Impairment for the year	(46,942)	(1,145,924)
Transferred to oil & gas properties	-	(4,884,933)
Transferred to development phase	-	-
Balance at 30 June	-	10,046
Development phase - at cost		
Balance 1 July	-	-
Effects of movements in foreign exchange	-	-
Expenditure incurred	-	41,391
	-	41,391
Transferred from exploration and evaluation phase	-	-
Impairment for the year	-	(41,391)
Transferred to oil & gas properties	-	-
Balance at 30 June	-	-
Total deferred exploration and development expenditure	-	10,046

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases are dependent on successful development and commercial exploitation or sale of the respective areas.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

NOTE 10: SHARE BASED PAYMENT PLANS

Employee Share Plan (ESP)

No shares were issued pursuant to the employee share plan during the year (2013: 1,666,666 shares).

The fair value of the equity settled shares granted is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the shares were issued. Included under share based payment expenses in the statement of comprehensive income is \$Nil (2013: \$11,876) in respect of the shares issued.

Employee Share Loan Plan (ESLP)

An employee share loan is provided to purchase the plan shares. The loan is interest free with recourse limited to the underlying shares. The loan is made based on the market price of the underlying shares on the grant date and is repayable in full by 8 May 2018.

Employee Share Option Plan

The following share-based payment arrangements were in place during the current and prior periods:

	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
Employee share option	750,000	24 October 2011	24 October 2014	12 cents	35,264

A summary of the movements of employee share options issued is as follows:

	2014 No.	2014 Weighted average exercise price	2013 No.	2013 Weighted average exercise price
Outstanding at the beginning of the period	750,000	12 cents	750,000	12 cents
Granted during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	750,000	12 cents	750,000	12 cents
Exercisable at the end of the period	750,000	12 cents	750,000	12 cents

NOTE 11: TRADE AND OTHER PAYABLES

	Consolidated	
	2014 \$	2013 \$
Current		
Trade payables	2,794,344	777,552
Employee entitlements	85,292	10,239
Accruals	400,321	243,685
GST payable	-	-
Other payables	9,809	6,681
	3,289,766	1,038,157

Trade payables are non-interest bearing and are normally settled on 30-day terms.



NOTE 12: CONVERTIBLE NOTES

	Face Value Consolidated	
	2014	2013
	\$	\$
Balance 1 July	-	500,000
Issued during the year ⁽ⁱ⁾	7,800,000	2,505,000
Redeemed for cash during the year ⁽ⁱⁱ⁾	(1,200,000)	-
Redeemed for notes during the year ⁽ⁱⁱⁱ⁾	(600,000)	-
Converted to notes/equity/shares during the year	-	(3,005,000)
Balance at end of year	6,000,000	-

	Present Value Consolidated	
	2014	2013
	\$	\$
Face Value of Notes	6,000,000	-
Transaction costs on liability component	(312,584)	-
Equity component transferred to reserves	(835,022)	-
Transaction costs on equity component	43,615	-
Unwinding of discount rate	74,463	-
Balance at end of year	4,970,472	-

	Consolidated	
	2014	2013
	No.	No.
Balance 1 July	-	500,000
Issued during the year ⁽ⁱ⁾	145,714,286	2,505,000
Redeemed for cash during the year ⁽ⁱⁱ⁾	(17,142,857)	-
Redeemed for notes during the year ⁽ⁱⁱⁱ⁾	(8,571,429)	-
Converted to notes/equity/shares during the year	-	(3,005,000)
Balance at end of year	120,000,000	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

(i) Details of the convertible notes issued.

25,714,286 convertible notes (2013 Convertible Notes) with a combined face value of \$1,800,000 were issued to sophisticated investors in July and November 2013.

The terms of the 2013 Convertible Notes were as follows:

- Interest Rate of 10% pa
- Secured over Target's interest in the Fairway project
- Face Value of 7 cents each
- Convertible into one share each
- Maturity date of 1 October 2014

66,000,000 convertible notes (2014 Convertible Notes) with a combined face value of \$3,300,000 were issued to sophisticated investors in March 2014. This included 12,000,000 2014 Convertible Notes with a combined face value of \$600,000 issued to the holders of 2013 Convertible Notes upon redemption. A further 54,000,000 2014 Convertible Notes with a combined face value of \$2,700,000 were issued to sophisticated investors in April 2014 following shareholder approval of the issue. The present value of the liability component less transaction costs was \$5,208,593. The balance of \$791,407 was recognised in equity.

The terms of the 2014 Convertible Notes are as follows:

- Interest Rate of 10% pa
- Secured over Target's interest in the Fairway project
- Face Value of 5 cents each
- Convertible into one share each
- Maturity date of 31 March 2017

(ii) Details of the convertible notes converted

8,571,428 of the 2013 Convertible Notes with a face value of \$600,000 were redeemed via conversion into 2014 Convertible Notes in March 2014.

(iii) Details of the convertible notes redeemed for cash

17,142,858 of the 2013 Convertible Notes with a face value of \$1,200,000 were redeemed for cash in April 2014.

NOTE 13: ISSUED CAPITAL

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

	Consolidated	
	2014	2013
	\$	\$
453,746,588 (2013: 453,746,588) fully paid ordinary shares	33,492,432	33,492,432

(i) Ordinary shares - number

	No.	No.
At start of period	453,746,588	347,749,258
Shares issued on conversion of options at \$0.10	-	17,999,595
Shares issued on conversion of options at \$0.07	-	8,078,247
Placement of shares to underwrite options expired at \$0.10	-	34,852,822
Conversion of convertible notes at \$0.050	-	10,000,000
Conversion of convertible notes at \$0.075	-	33,400,000
Grant of shares pursuant to employee share plan	-	1,666,666
Balance at end of year	453,746,588	453,746,588

(ii) Ordinary shares – value

	\$	\$
At start of period	33,492,432	24,882,293
Shares issued on conversion of options at \$0.10	-	1,799,960
Shares issued on conversion of options at \$0.07	-	565,477
Placement of shares to underwrite options expired at \$0.10	-	3,485,282
Conversion of convertible notes at \$0.050	-	500,000
Conversion of convertible notes at \$0.075	-	2,505,000
Grant of shares pursuant to employee share plan	-	-
Less share issue costs	-	(245,580)
Balance at end of year	33,492,432	33,492,432

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

NOTE 14: RESERVES

	Consolidated	
	2014	2013
	\$	\$
Reserves	1,300,525	1,156,395
Reserves comprise the following:		
(i) Option Premium Reserve		
Number of options - options issued other than as share based payments	No.	No.
At start of period	40,451,824	109,912,830
Issue of options	25,714,286	-
Conversion of options	-	(26,077,842)
Expiry of options	(40,451,824)	(43,383,164)
Balance at 30 June	25,714,286	40,451,824
Value of options	\$	\$
At start of period	340,000	340,000
Balance at 30 June	340,000	340,000
(ii) Share-Based Payments Reserve		
Number of options - options issued as share based payments	No.	No.
At start of period	2,416,666	750,000
Issue of shares	-	1,666,666
Balance at 30 June	2,416,666	2,416,666
Value of options	\$	\$
At start of period	263,455	251,579
Issue of shares	-	11,876
Balance at 30 June	263,455	263,455
(iii) Foreign Currency Translation Reserve		
At start of period	552,940	(1,485,526)
Currency translation differences	(647,277)	2,038,466
Balance at 30 June	(94,337)	552,940
(iv) Convertible Note - Equity Component Reserve		
At start of period	-	-
Equity component of convertible notes (net of transaction costs)	791,407	-
Balance at 30 June	791,407	-

Nature and purpose of reserves

Share Based Payments Reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration and to third parties for services provided.

Option Premium Reserve

This reserve records the proceeds from the issue of options at 1 cent as per the prospectus dated 9 March 2007.

Foreign Currency Translation Reserve

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Convertible Note – Equity Component Reserve

The reserve is used to record the equity component of convertible notes.

NOTE 15: FINANCIAL INSTRUMENTS

30 June 2014	Weighted Average Effective Interest Rate	Floating Interest Rate \$	Within 1 Year \$	Fixed Interest Rate Maturing			Total \$
				1 to 5 Years \$	Over 5 Years \$	Non-interest bearing \$	
Financial Assets:							
Cash & cash equivalents	0.3%	3,719,166	-	-	-	-	3,719,166
Trade and other receivables		-	-	-	-	1,315,784	1,315,784
Other financial assets (current)	2.8%	-	50,000	-	-	-	50,000
Total Financial Assets		3,719,166	50,000	-	-	1,315,784	5,084,950
Financial Liabilities:							
Trade and other payables		-	-	-	-	3,289,766	3,289,766
Convertible Notes	10.0%	-	-	4,970,472	-	-	4,970,472
Total financial liabilities		-	-	4,970,472	-	3,289,766	8,260,238

30 June 2013	Weighted Average Effective Interest Rate	Floating Interest Rate \$	Within 1 Year \$	Fixed Interest Rate Maturing			Total \$
				1 to 5 Years \$	Over 5 Years \$	Non-interest bearing \$	
Financial Assets:							
Cash & cash equivalents	2.5%	1,537,700	-	-	-	-	1,537,700
Trade and other receivables		-	-	-	-	1,976,843	1,976,843
Other financial assets (current)	4.2%	-	50,000	-	-	-	50,000
Total Financial Assets		1,537,700	50,000	-	-	1,976,843	3,564,543
Financial Liabilities:							
Trade and other payables		-	-	-	-	1,038,157	1,038,157
Convertible Notes	12.0%	-	-	-	-	-	-
Total financial liabilities		-	-	-	-	1,038,157	1,038,157

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

NOTE 16: EXPENDITURE COMMITMENTS

(i) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

	Consolidated	
	2014	2013
	\$	\$
Payable - minimum lease payments		
- not later than 12 months	70,122	9,976
- between 12 months and 5 years	148,763	-
- greater than 5 years	-	-
	218,885	9,976

The company executed the operating lease on 6 January 2014 for office space it occupies in West Perth. The term of the lease is 12 months. The Company's existing lease for office space it occupies in Houston expires on 31 October 2014. On 10 June 2014 the company executed an amendment of the operating lease, extending the term for a further 36 months.

(ii) Expenditure commitments contracted for:

Exploration Tenements

In order to maintain current rights of tenure to exploration tenements, the Company is required to outlay rentals and to meet the minimum expenditure requirements. These obligations are not provided for in the financial statements and are payable:

- not later than 12 months	-	-
- between 12 months and 5 years	-	-
- greater than 5 years	-	-
	-	-

NOTE 17: RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Target Energy Limited and the subsidiaries listed in the following table.

Name	Country of Incorporation	% Equity Interest		Investment	Investment
		2014	2013	\$	\$
Target Energy Limited	Australia	100	100	-	-
TELA (USA) Inc	USA	100	100	-	-
TELA Louisiana Limited Inc	USA	100	100	-	-
TELA Texas Holdings Limited Inc	USA	100	100	-	-
<i>its subsidiaries:</i>					
TELA Texas General LLC	USA	100	100	-	-
TELA Texas Limited LLC	USA	100	100	-	-
<i>its subsidiary</i>					
TELA Garwood Limited LP1	USA	99	99	-	-

Note 1 - 1% owned by Tela Texas General LLC

Target Energy Limited is the ultimate Australian parent entity and ultimate parent of the Group.

Outstanding balances at year-end are unsecured and settlement occurs in cash.

	2014	2013
	\$	\$
Amounts owed by Related Parties		
Subsidiaries		
TELA Louisiana Limited Inc	12,549,463	12,508,434
TELA Garwood Limited LP	6,202,018	6,180,971
TELA (USA) Inc	14,346,197	10,181,735
Total	33,097,678	28,871,140
Allowance for impairment	(14,388,363)	(12,366,822)
	18,709,315	16,504,318

For the year ended 30 June 2014, the consolidated entity has reversed a prior impairment of the loan to TELA Garwood Limited LP amounting to \$1,988,989 (2013: Impairment of \$286,379), and has made an allowance for the impairment of the loan to TELA Louisiana Limited Inc amounting to \$2,797,992 (2013: \$2,223,897) and TELA USA Inc amounting to \$1,212,539 (2013: \$979,221).

An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the consolidated entity recognises an allowance for the impairment loss.

Loans to controlled entities bear interest at the rate of between 3% and 4.5% (2013: 3% to 4.5%). Interest received from controlled entities during the year was \$1,036,515 (2013: \$564,921).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

NOTE 18: EVENTS AFTER THE REPORTING DATE

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future periods, other than;

- Aurora failed to make the requisite payment for the Second Closing by the agreed date. Subsequent efforts to address the matter did not yield a successful resolution and following Target's advice to Aurora that if the closing was not completed in a timely manner, it intended to withdraw the Second Closing assets from sale, Target was advised by Aurora that it considers the PSA terminated as to the Second Closing assets. Refer to Note 1(e) for further details.
- The Company and its partners have drilled the BOA North #5 and Taree #1 wells at the Fairway Project, which are presently awaiting testing.

NOTE 19: AUDITORS' REMUNERATION

	Consolidated	
	2014	2013
	\$	\$
Amounts received or due and receivable by the auditors for:		
Audit or review of the financial reports of the consolidated entity - HLB Mann Judd	35,995	34,205
Review services in connection with cleansing notice – HLB Mann Judd	600	-
Audit or review of the financial reports of subsidiaries - GBH CPAs, PC	66,783	43,835

NOTE 20: KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of Key Management Personnel

Directors

Christopher Rowe	Chairman (non-executive)
Laurence Roe	Managing Director
Stephen Mann	Director (non-executive)
Graham Riley	Director (non-executive resigned 5 October 2012)

There were no changes in the Managing Director or key management personnel after reporting date and up to the date the financial report was authorised for issue.

(b) Compensation by category of Key Management Personnel for the year ended 30 June 2014

	Consolidated	
	2014	2013
	\$	\$
Short-term employee benefits	459,211	474,211
Post-employment benefits	36,002	33,409
Share-based payments	-	-
	495,213	507,620

For the calculation of compensation received by key management personnel, key management personnel includes Mr Rowe, Mr Roe, Mr Mann and Mr Riley in accordance with the definition of key management personnel in the remuneration report within the directors' report.

(c) Interest Paid to Key Management Personnel on Convertible Notes

	2014	2013
Directors	\$	\$
Christopher Rowe	6,768	2,320
Laurence Roe	-	1,547
	6,768	3,867

(d) Loans to Key Management Personnel

No loans have been provided to key management personnel during the year.

(e) Other Transactions and balances with Key Management Personnel

An entity, of which Mr Rowe is a director and shareholder, provided geophysical consulting services to the Company. The services were provided on arms length terms for a total of \$8,715 (2013: \$17,000).

The Company paid living expenses in relation to the relocation of Mr Roe to the USA including the cost of an apartment in Houston. These expenses totaled \$69,971 (2013: \$72,768).

An entity of which Mr Graham Riley was trustee and beneficiary provided underwriting services to the Company in the previous financial year. Total fees paid were \$Nil (2013: \$42,736).

(f) Amounts payable to Key Management Personnel at year end

An amount of \$5,833 (2013: \$5,833) was payable at year end to an entity, of which Mr. Rowe is a director and shareholder. Interest of \$6,768 (2013: \$Nil) was payable at year end to an entity, of which Mr. Rowe is a director and shareholder.

(g) Convertible Notes issued to and held by Key Management Personnel

During the period, 6,100,000 convertible notes were issued to an entity of which Mr. Rowe is a director and shareholder. All of these convertible notes were held at the balance date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

NOTE 21: FINANCIAL RISK MANAGEMENT

The consolidated entity's financial situation is not complex. Its activities may expose it to a variety of financial risks in the future: market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. At that stage the Consolidated entity's overall risk management program will focus on the unpredictability of the financial markets and seek to minimise potential adverse effects on the financial performance of the Consolidated entity.

Risk management is carried out under an approved framework covering a risk management policy and internal compliance and control by management. The Board identifies, evaluates and approves measures to address financial risks.

The Consolidated entity holds the following financial instruments:

	2014 \$	2013 \$
Financial assets		
Cash and cash equivalents	3,719,166	1,537,700
Trade and other receivables	1,315,784	1,976,843
Other financial assets	50,000	50,000
	5,084,950	3,564,543
Financial liabilities		
Trade and other payables	3,289,766	1,038,157
Convertible Notes	4,970,472	-
	8,260,238	1,038,157

The carrying amounts of financial assets and financial liabilities approximate their fair values.

(a) Market risk

Cash flow and fair value interest rate risk

The consolidated entity's main interest rate risk arises from cash deposits to be applied to exploration and development of areas of interest. Deposits at variable rates expose the consolidated entity to cash flow interest rate risk. Deposits at fixed rates expose the consolidated entity to fair value interest rate risk. During 2014 and 2013, the consolidated entity's deposits at variable rates were denominated in Australian Dollars and United States Dollars.

As at the reporting date, the consolidated entity had the following variable rate deposits (including the term deposit included in Note 7).

	2014	2013
	Weighted average interest rate	Weighted average interest rate
	%	%
	\$	\$
Deposit	3,769,061	1,587,471
Other cash available	105	229
Net exposure to cash flow interest rate risk	0.3%	0.6%
	3,769,166	1,587,700

The consolidated entity analyses its interest rate exposure on a dynamic basis.

Sensitivity

During 2013/2014, if interest rates had been 50 basis points higher or lower than the prevailing rates realised, with all other variables held constant, there would be an immaterial change in post-tax loss for the year.

As a result of significant operations in the United States and large purchases denominated in United States Dollars, the consolidated entity's statement of financial position can be affected significantly by movements in the US\$/A\$ exchange rates. The consolidated entity seeks to mitigate the effect of its foreign currency exposure by holding US Dollars.

The consolidated entity also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

Foreign currency risk

100% of the consolidated entity's sales are denominated in a currency (USD) other than the functional currency of the operating entity making the sale. All of the production costs are denominated in USD.

The consolidated entity does not have a policy to enter into forward contracts. At 30 June 2014, the consolidated entity had the following exposure to US\$ foreign currency expressed in A\$ equivalents:

	2014 \$	2013 \$
Financial assets		
Cash and cash equivalents	3,394,281	1,350,156
Trade and other receivables	1,285,172	1,011,685
	4,679,453	2,361,841
Financial liabilities		
Trade and other payables	3,009,620	770,389
Convertible Notes	-	-

The following sensitivity is based on the foreign currency risk exposures in existence at the balance date:

At 30 June 2014, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

	2014 \$	2013 \$
Consolidated Group		
AUD/USD +10%	(151,803)	(44,295)
AUD/USD -10%	185,537	66,443

	US\$	A\$	A\$ +10%	Movement +10%	A\$ -10%	Movement -10%
Cash	3,197,073	3,394,281	3,085,710	(308,571)	3,771,423	377,141
Debtors	1,210,503	1,285,172	1,168,338	(116,834)	1,427,968	142,796
Creditors	(2,834,761)	(3,009,620)	(2,736,018)	273,603	(3,344,022)	(334,401)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

(b) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures on outstanding receivables and prepayments made in respect of programs to project operator. In relation to other credit risk areas management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Cash transactions are limited to high credit quality financial institutions.

The Consolidated entity has the following significant concentrations of credit risk:

		USD
Trade receivables and other receivables:	Trilogy Operating Inc.	591,732
	Aurora Energy Partners	558,245
		<hr/> 1,149,977 <hr/>

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised at the beginning of this note.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. The Consolidated entity manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Consolidated entity will aim at maintaining flexibility in funding by accessing appropriate committed credit lines available from different counterparties where appropriate and possible. Surplus funds when available are generally only invested in high credit quality financial institutions in highly liquid markets.

The Consolidated entity and parent entity have no borrowing facilities.

(d) Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Company consists of equity attributable to equity holders, comprising issued capital and reserves as disclosed in notes 13 and 14. The Board reviews the capital structure on a regular basis and considers the cost of capital and the risks associated with each class of capital. The Company will balance its overall capital structure through new share issues as well as the issue of debt, if the need arises.

NOTE 22: SEGMENT REPORTING

Description of segments

The Company's principal activities are the development and production of and exploration for oil and gas in the United States of America. It operates through its USA subsidiaries TELA Garwood Limited LP, TELA Louisiana Limited Inc and TELA USA Inc. Australian operations include the Company's Office which includes all corporate expenses that cannot be directly attributed to the operation of the consolidated entity's operating segment.

Segment information

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2014 and 30 June 2013.

	Continuing operations				
	USA Subsidiaries	Australian operations	Total	Inter-segment transactions	Consolidated
30-Jun-14	\$	\$	\$	\$	\$
Revenue					
Sales to external customers	4,383,096	-	4,383,096	-	4,383,096
Other revenues from external customers	642,376	15,000	657,376	-	657,376
Total segment revenue	5,025,472	15,000	5,040,472	-	5,040,472
Interest revenue	-	1,043,069	1,043,069	(1,036,516)	6,553
Foreign exchange gain/loss	973,792	(967,496)	6,296	-	6,296
Interest expense	(1,032,484)	(322,407)	(1,354,891)	1,017,768	(337,123)
Depreciation and amortisation	(2,014,718)	(4,998)	(2,019,716)	-	(2,019,716)
Impairment	(2,303,395)	-	(2,303,395)	-	(2,303,395)
Impairment of loans	-	(2,021,541)	(2,021,541)	2,021,541	-
Other expenses	(2,004,085)	(1,317,221)	(3,321,306)	-	(3,321,306)
Income tax expense	-	-	-	-	-
Profit/(loss) for the year	(1,355,418)	(3,575,594)	(4,931,012)	2,002,793	(2,928,219)
Segment assets					
Investments in associates	-	98	98	(98)	-
Capital expenditure	17,040,136	9,040	17,049,176	-	17,049,176
Other assets	4,678,897	19,115,368	23,794,265	(18,709,315)	5,084,950
Segment liabilities	21,718,934	5,250,619	26,969,553	(18,709,315)	8,260,238

Cash flow information

Net cash flow from operating activities	957,470
Net cash flow from investing activities	(4,189,888)
Net cash flow from financing activities	5,644,680

(i) Intersegment revenue is recorded at amounts equal to competitive market prices charged to external customers for similar goods and is eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

	Continuing operations				
	USA Subsidiaries	Australian operations	Total	Inter-segment transactions	Consolidated
30-Jun-13	\$	\$	\$	\$	\$
Revenue					
Sales to external customers	2,280,110	-	2,280,110	-	2,280,110
Other revenues from external customers	438	-	438	-	438
Total segment revenue	2,280,548	-	2,280,548	-	2,280,548
Interest revenue	-	580,194	580,194	(564,921)	15,273
Foreign exchange gain/loss	(3,032,159)	3,022,808	(9,351)	-	(9,351)
Interest expense	(566,789)	(134,598)	(701,387)	563,693	(137,694)
Depreciation and amortisation	(1,254,305)	(12,207)	(1,266,512)	-	(1,266,512)
Impairment	(1,104,533)	-	(1,104,533)	-	(1,104,533)
Impairment of loans	-	(2,916,739)	(2,916,739)	2,916,739	-
Other expenses	(1,276,741)	(1,292,045)	(2,568,786)	-	(2,568,786)
Income tax expense	-	-	-	-	-
Profit/(loss) for the year	(4,953,979)	(752,587)	(5,706,566)	2,915,511	(2,791,055)
Segment assets					
Investments in associates	-	98	98	(98)	-
Capital expenditure	14,125,078	6,513	14,131,591	-	14,131,591
Other assets	3,301,186	16,767,674	20,068,860	(16,504,317)	3,564,543
Segment liabilities	17,426,265	116,209	17,542,474	(16,504,317)	1,038,157

Cash flow information

Net cash flow from operating activities	(1,446,389)
Net cash flow from investing activities	(5,821,450)
Net cash flow from financing activities	8,132,350

(i) Intersegment revenue is recorded at amounts equal to competitive market prices charged to external customers for similar goods and is eliminated on consolidation.

Other segment information

Segment revenue reconciliation to the statement of comprehensive income

	Consolidated	
	2014	2013
	\$	\$
Total segment revenue	5,040,472	2,280,548
Inter-segment sales elimination	-	-
Other revenue from continuing operations	6,553	15,273
Total revenue	5,047,025	2,295,821

Revenue from external customers by geographical locations is detailed below. Revenue is attributed to geographical location based on the location of customers. The Company does not have external revenues from external customers that are attributable to any foreign country other than shown.

	Consolidated	
	2014	2013
	\$	\$
Australia	21,553	13,454
United States	5,025,472	2,282,367
Total revenue	5,047,025	2,295,821

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)


NOTE 23: PARENT ENTITY DISCLOSURES

	Company	
	2014	2013
	\$	\$
(a) Financial Position		
Assets		
Current assets	406,152	263,454
Non-current assets	18,718,355	16,510,830
Total assets	19,124,507	16,774,284
Liabilities		
Current liabilities	280,147	116,209
Non Current Liabilities	4,970,472	-
Total liabilities	5,250,619	116,209
Equity		
Issued capital	33,492,432	33,492,432
Reserves	1,394,862	603,455
Accumulated losses	(21,013,406)	(17,437,812)
Total Equity	13,873,888	16,658,075
(b) Financial Performance		
Loss for the year	(3,575,594)	(752,585)
Other comprehensive income	-	-
Total comprehensive loss	(3,575,594)	(752,585)
(c) Contingent liabilities of the parent entity	-	-
(d) Commitments for the acquisition of property, plant and equipment by the parent entity	-	-
(e) Operating lease Commitments	9,976	9,976

DIRECTORS' DECLARATION

1. In the opinion of the directors of Target Energy Limited (the "Company"):
 - a) the accompanying financial statements and notes are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year then ended; and
 - (ii) complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements; and
 - b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
 - c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the year ended 30 June 2014.

This declaration is signed in accordance with a resolution of the Board of Directors.



Laurence Roe
Director

30 September 2014

INDEPENDENT AUDITOR'S REPORT



Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Target Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Target Energy Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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HLB Mann Judd (WA Partnership) is a member of  HLB International, a worldwide organisation of accounting firms and business advisers.



Accountants | Business and Financial Advisers

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Target Energy Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(c).

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1(ab) in the financial report which indicates that for the year ended 30 June 2014, the Group had a net cash outflow from operating and investing activities of \$3,232,418 and incurred a net loss for the year of \$2,928,219. These conditions, along with other matters as set forth in Note 1(ab) indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion the remuneration report of Target Energy Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

A blue ink signature of HLB Mann Judd.

HLB Mann Judd
Chartered Accountants

A blue ink signature of M R W Ohm.

M R W Ohm
Partner

Perth, Western Australia
30 September 2014

CORPORATE GOVERNANCE

This statement outlines the main corporate governance practices in place throughout the year ended 30 June 2014, which comply with the ASX Corporate Governance Council "Corporate Governance Council Principles and Recommendations 2nd Edition with 2010 Amendments" (issued in June 2010), unless otherwise stated.

Board of directors

The skills, experience and expertise of each director is separately disclosed in the Directors' Report. The names of the directors in office at the date of the Directors' Report and the periods of their tenure are;

Name	Office	Date of Appointment	Period of Tenure	Date of most recent re-election by members
Mr Christopher Rowe	Non-Executive Chairman	1 January 2010	4 years, 9 months	14 November 2013
Mr Laurence Roe	Managing Director	6 April 2006	8 years, 5 months	Not applicable
Mr Stephen Mann	Non-Executive Director	23 March 2011	3 years, 6 months	29 November 2012

Role of the board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting. A statement of the functions reserved for the Board is contained in the Corporate Governance manual on the Company's website.

All functions not formally reserved for the Board are the domain of management.

Board Processes

The Board has established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and appropriate ethical standards.

The full Board schedules meetings, including strategy meetings and any extraordinary meetings, as necessary to address any specific significant matters that may arise. The agenda for meetings is prepared in conjunction with the Chairman and Company Secretary. Standing items include the management report, financial reports, strategic matters, disclosures and compliance. Board papers are circulated in advance.

Independent Professional Advice and Access to Company Information

Each Director has the right of access to all relevant company information and to the Company's executives and, subject to prior consultation with the chairman, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.


Composition of the Board

The composition of the Board is determined using the following principles:

- A minimum of three directors, with a broad range of expertise both nationally and internationally
- Directors having extensive knowledge of the Company's industries, and those which do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management and financing of public companies
- The roles of Chairman and Managing Director are not to be exercised by the same individual; and
- A maximum period of three years or the third annual general meeting following their appointment (whichever is the longer), except for the Managing Director, after which time the director must retire but is eligible for re-election.

Board members have experience in the management of public companies. The board considers Mr Rowe (the Chairman) to be an independent director.

Mr Mann was not considered to be an independent director as he was a director of Investmet Limited, until June 2014, which was the Company's largest shareholder until June 2014. As Mr Mann is no longer a director of Investmet Limited and Investmet Limited is no longer a substantial shareholder of the Company, he is now considered to be an independent director.



Mr Roe (the Managing Director) is not considered to be an independent director as he is the Managing Director.

On this basis, the board had less independent directors than non-independent directors until June 2014. Therefore the board did not comply with the recommendations of ASX Corporate Governance Council until June 2014. However since June 2014, the board had more independent directors than non-independent directors and therefore does comply with the recommendations of ASX Corporate Governance Council until June 2014.

The directors consider that the current number of independent directors in the Company is appropriate for the effective execution of the board's responsibilities. The directors periodically monitor the need to appoint additional independent directors.

Process for Evaluating the Performance of Executives

The process for the evaluation of the performance of executive(s), including the Managing Director is for the Chairman and the executive to meet informally each year to discuss the Chairman's evaluation of the executive's performance.

The evaluation process was undertaken in August 2014 which is more than 12 months since it was last undertaken and, therefore not in accordance with the requirement that the evaluation process be undertaken annually.

Process for Evaluating the Performance of Directors

The process for the evaluation of the performance of director(s), excluding the Managing Director is for the Chairman to meet informally with each director each year to discuss the Chairman's evaluation of the director's performance.

The evaluation process was undertaken in August 2014 which is more than 12 months since it was last undertaken and, therefore not in accordance with the requirement that the evaluation process be undertaken annually.

Nomination Committee

The board considers that a formally constituted Nomination Committee is not appropriate as the board, as part of its usual role, oversees the appointment and induction process for directors, and the selection, appointment and succession planning process of the Company's executive officers. The board considers the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the board determines the selection criteria based on the skills deemed necessary. The board identifies potential candidates and may take advice from an external consultant. The board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders.

The chairman of the board continually reviews the effectiveness of the board, individual directors, and senior executives. The other directors have an opportunity to contribute to the review process. The reviews generate recommendations to the board, which votes on them. Any director displaying unsatisfactory performance would be required to retire.

Remuneration Committee

The board considers that a formally constituted Remuneration Committee is not appropriate as the board, as part of its usual role, oversees the appointment and remuneration of directors and the Company's executive officers. Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The board may seek independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages are largely comprised of fixed remuneration.

The remuneration structures explained below are designed to attract suitably qualified candidates, and to affect the broader outcome of maximising the Company's profitability. The remuneration structures take into account:

- Overall level of remuneration for each director and executive;
- The executive's ability to control the performance of the relevant area; and
- The amount of incentives within each executive's remuneration.

Shares and options can only be issued to Company Directors under a resolution at a general meeting of shareholders.

Non-Executive Directors may receive a base fee and can be remunerated by way of share and option issues approved under a resolution at a general meeting of shareholders. No shares or options have been issued to directors as part of their remuneration during the period.

The board has no established retirement or redundancy schemes. There are no unvested entitlements under equity based remuneration schemes.

CORPORATE GOVERNANCE (continued)

Audit Committee

The consolidated entity is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of a separate Audit Committee. Whilst the Company does not have a formally constituted Audit Committee, the board, as part of its usual role, undertakes audit related responsibilities including:

- Reviewing the annual and interim financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles, and assessing whether the financial information is adequate for shareholders needs;
- Assessing corporate risk assessment processes;
- Assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence which is consistent with Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board;
- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.
- Reviewing the nomination and performance of the external auditor. The external audit engagement partner will be rotated every five years. The external audit partner rotation was last completed at the half year review for the period ended 31 December 2011;
- Assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements.
- The directors review the performance of the external auditors on an annual basis and normally meet with them during the year to:
- Discuss the external audit plans, identify any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- Review the annual and half-year reports prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend board approval of these documents, prior to announcement of result.

The board monitors the need to form an Audit Committee on a periodic basis.

Risk Management

The consolidated entity has in place a framework to safeguard Company assets and ensure that business risks are identified and properly managed. It is part of the board's oversight role to oversee the establishment and implementation of the risk management system, and to review the effectiveness of the company's implementation of that system. Due to the size of the company it does not have an internal audit function or a Risk sub-committee of the Board.

The Board monitor the management of risks on an ongoing basis and requires management to design and implement a risk management and internal control system to manage the entity's material business risks. Management is responsible for the identification, assessment, monitoring and management of material risk throughout the company. Management reports to the Board annually to confirm how each of the company's material business risks is being managed. Management reported to the Board in September 2013 in respect of how material business risks are being managed. The Company's risk management framework is available in the Corporate Governance Manual on the website.

The company secretary and managing director have declared to the board that the Company's risk management system is working efficiently and effectively and that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Ethical Standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity.

Conflict of Interest

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The board has developed procedures to assist directors to disclose potential conflicts of interest. Where the board believes that a significant conflict exists for a director on a board matter, the director concerned is not to be present at the meeting whilst the item is considered unless in the opinion of the rest of the Board, that Director should be present. Details of director related entity transactions with the Company and consolidated entity are set out in the notes to the financial reports.



Code of conduct

The Company has established a Code of Conduct which aims to develop a consistent understanding of, and approach to, the desired standards of conduct and behaviour of the directors, officers, employees and contractors (collectively, the Employees) in carrying out their roles for the Company. Through this Code, the Company seeks to encourage and develop a culture of professionalism, honesty and responsibility in order to maintain and enhance our reputation as a valued employer, business operator and "corporate citizen". The Code is designed to broadly outline the ways in which the Company wishes to conduct its business. The Code does not cover every possible situation that Employees may face, but is intended to provide Employees with a guide to taking a commonsense approach to any given situation, within an overall framework. The Code of Conduct is available on the Company's website.

Trading in consolidated entity securities by directors and employees

The Company has established a Security Trading Policy that is provided to all Directors and employees on commencement and is available on the Company's website. The Securities Trading Policy was extensively reviewed and updated in 2013.

The constitution permits Directors to acquire shares in the Company. The Corporations Law prohibits persons from dealing in shares whilst in possession of price sensitive information. This prohibition is reinforced by Company policy.

The Securities Trading Policy imposes designated closed periods surrounding reporting deadlines. Prior approval in writing is required for trading by restricted persons at any time and is only allowed during a closed period in the event of severe financial hardship or other extreme circumstances.

Restricted persons must notify the company secretary once they have bought or sold shares in the Company or exercised options over ordinary shares. In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the ASX, the Company on behalf of the directors must advise the ASX of any transactions conducted by them in shares and / or options in the Company.

Communication with Shareholders

The board has formally documented the Company's continuous disclosure procedures and established a Shareholder Communication Policy which is available on the Company's website. The board, as part of its usual role, provides shareholders with information using comprehensive continuous disclosure processes which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX and issuing media releases.

Compliance with ASX Listing Rules Disclosure Rules

The Company has established a policy in respect of ensuring compliance with ASX Listing Rules in respect of Continuous Disclosure and this is available on the website.

Diversity Policy

The Company has established a Diversity Policy that is provided to all Directors and employees on commencement and is available on the Company's website. The Policy does not include a requirement for measurable objectives for achieving gender diversity, because the Company is not of a sufficient size to justify these objectives. The Company currently employs one woman who is neither on the board or a senior executive.

SHAREHOLDER INFORMATION

DISTRIBUTION OF EQUITY SECURITIES

The distribution of members and their holdings of fully paid ordinary shares as at 25 September 2014.

Shares held	No. of Shareholders	Percentage
1 – 1,000	114	0.004%
1,001 – 5,000	79	0.061%
5,001 – 10,000	106	0.190%
10,001 – 100,000	589	5.630%
100,001 and over	426	94.115%
Total	1,314	100.000%

Less than Marketable Parcel at 5.5 cents	Min Parcel size	Holders	Units
Shares	9,090	259	760,864

Holders of Unquoted equity securities	No. of holders	No. Issued
Unlisted Options, 7 cents, 1 October 2014	2	25,714,286
Unlisted Options, 12 cents, 24 October 2014	1	750,000
Unquoted Convertible Notes, 5 cents, 31 March 2017	84	120,000,000

TWENTY LARGEST SHARE HOLDERS

The names of the 20 largest holders of fully paid ordinary shares as at 25 September 2014 are listed below:

Name	Number of Shares	Percentage
Wyllie Group Pty Limited	45,550,814	10.04%
Gunz Pty Ltd <Gunz Superannuation Fund>	21,265,716	4.69%
Little Breton Nominees Pty Ltd <The Little Breton S/F A/c>	13,022,180	2.87%
Sharic Superannuation Pty Ltd <Farris Super Fund A/c>	12,480,647	2.75%
Michael Fotios <Michael Fotios Family A/c>	10,125,000	2.23%
AM Riley Pty Ltd <AM Riley Super Fund A/c>	9,620,176	2.12%
GDR Pty Ltd <The Riley Super Fund A/c>	8,995,177	1.98%
Mr P Farris & Mrs S Farris <The Peter Farris Super Fund A/c>	8,623,692	1.90%
Petroe Exploration Services Pty Ltd	8,584,509	1.89%
Jemaya Pty Limited <The Featherby Family A/c>	8,095,711	1.78%
John Greenhalgh & Chase de Vere <The JG Pension Fund>	7,777,777	1.71%
Mrs Annabel Kate Glover	7,366,437	1.62%
Oakmount Nominees Pty Limited <Narromine Super Fund A/c>	6,335,774	1.40%
Adiolus S De RL	5,706,688	1.26%
Mr G Sharpless & Mrs J Sharpless <Sharpless Investment A/c>	5,575,707	1.23%
PG Binet Pty Ltd	5,114,000	1.13%
Netwealth Investments Limited <WRAP Services A/C>	5,019,871	1.11%
UBS Wealth Management Australia Nominees Pty Ltd	4,878,882	1.08%
Perth Select Seafoods Pty Ltd	4,575,837	1.01%
Investmet Limited	4,259,055	0.94%
	202,973,650	44.73%

RESTRICTED SECURITIES

In May 2013, 1,666,666 shares were issued to an employee pursuant to the Employee Share Plan. The Company provided an interest free loan to the employee to purchase the shares. The shares are also subject to performance conditions. The shares will remain subject to a voluntary restriction arrangement until the performance conditions are met or waived and the loan is repaid.

On 13 June 2014, Investmet Limited ("Investmet") completed a selective buyback of Investmet shares and, pursuant thereto, transferred 113,515,945 Target Energy shares to its shareholders. Each participating Investmet shareholder signed an agreement with Investmet which includes a voluntary escrow arrangement under which the participating Investmet shareholder must not, without the prior written consent of Investmet:

- Dispose of any of the Target Energy shares for a period of 6 months from the date of completion of the Investmet Buy-Back; and
- Dispose of more than 50% of the Target Energy shares for the 6 month period commencing on the date which is 6 months after the date of completion of the Investmet Buy-Back.

VOTING RIGHTS

Under the Company's constitution, all ordinary shares carry one vote per share without restriction. Options over ordinary shares do not carry any voting rights.

LARGEST HOLDERS OF UNLISTED OPTIONS

The names of any holder of unlisted options holding 20% or more of the class of unlisted options, as at 25 September 2014 are listed below:

Name	Series of Options	Number of Options	Percentage
GDR Pty Limited <Riley Super Fund>	7 cents, 1 October 2014	12,857,143	50%
Thomas A Patterson	7 cents, 1 October 2014	12,857,143	50%
S Morris ATF Van Der Morris Family	12 cents, 24 October 2014	750,000	100%

SUBSTANTIAL SHAREHOLDERS

The Company's Register of Substantial Shareholders, prepared in accordance with Chapter 6C of the Corporations Act 2001, recorded the following information as at 25 September 2014:

Holder Name	Number of Shares	Class of Share	Percentage of Issued Capital
Investmet Pty Limited	117,775,000	Ordinary	25.956%
Wyllie Group Pty Limited	45,550,814	Ordinary	10.039%

Note: Investmet Limited has not lodged a notice advising that it has ceased to be a substantial shareholder. Investmet Limited transferred 113,515,945 Target Energy shares to its shareholders pursuant to a selective buyback of Investmet Limited shares in June 2014; however it retains a relevant interest in the 113,515,945 Target Energy shares pursuant to a voluntary escrow arrangement entered into by Investmet with each of the transferees. Investmet Limited is the registered holder of 4,259,055 Target Energy shares as at 25 September 2014.

SHAREHOLDER INFORMATION (continued)

DISCLOSURES PURSUANT TO ASX WAIVER DATED 6 NOVEMBER 2013

2013 Convertible Notes

Face Value of 7c each, maturity 1 October 2014

No. Issued	Date of Issue	Face Value	No. Redeemed	Date of Redemption	Face Value	No. on Issue at 25 September 2014	No. that can be issued before 1 October 2014 pursuant to shareholder approvals and ASX waiver dated 6 November 2013
14,285,714	25 Jul 2013	1,000,000	8,571,428	7 Mar 2014	600,000		
			5,714,286	11 Apr 2014	400,000		
11,428,572	15 Nov 2013	800,000	11,428,572	11 Apr 2014	800,000		
25,714,286		1,800,000	25,714,286		1,800,000	-	-

Early Redemption Options

Exercise price of 7 cents, expiry 1 October 2014

No. Issued	Date of Issue	No. Exercised	No. on Issue at 25 September 2014	No. that can be issued before 1 October 2014 pursuant to shareholder approvals and ASX waiver dated 6 November 2013
8,571,428	7 Mar 2014	-		
17,142,858	11 Apr 2014	-		
25,714,286		-	25,714,286	-





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