



## ASX Announcement

23 October 2014

### \$3m Convertible Note Facility

US focused oil and gas producer Target Energy Limited ("Target") advises that it intends to issue 60 million convertible notes with a face value of \$0.05 each to Wyllie Group Pty Limited on 24 October 2014.

Attached to this Announcement is a Cleansing Notice under section 708A(12C)(e) of the Corporations Act to allow conversion of the convertible notes if an election is made by the noteholders to convert the convertible notes at a future point in time.

Yours faithfully

**Laurence Roe**  
**Managing Director**

#### Corporate information

ASX Code: TEX  
OTCQX Code: TEXQY

#### Board of Directors

Chris Rowe, Chairman  
Laurence Roe, Managing Director  
Stephen Mann, Director  
Ralph Kehle, Chairman TELA (USA)

Rowan Caren, Company Secretary

#### ABN

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Company Announcements Office  
ASX Limited

### **Cleansing Notice issued under section 708A(12C)(e) of the Corporations Act 2001 (Cth) (as inserted by ASIC Class Order [CO10/322] *On-sale for convertible notes issued to wholesale investors*)**

This Cleansing Notice is given by Target Energy Limited ABN 73 119 160 360 (ASX code: TEX) ("Target") under section 708A(12C)(e) of the *Corporations Act 2001* (Cth) ("Corporations Act") as inserted by Australian Securities and Investments Commission ("ASIC") Class Order 10/322 ("CO 10/322") to enable fully paid ordinary shares in the capital of Target (**Shares**) to be issued on conversion of the convertible notes issued by the Company.

Where applicable, references in this Cleansing Notice to the Corporations Act are to those sections as inserted by CO 10/322.

This Cleansing Notice is important and should be read in its entirety.

#### **1. EFFECT OF ISSUE ON TARGET ENERGY**

##### **1.1 Background**

On 21 October 2014, Target announced a placement of a total of 60,000,000 convertible notes (Convertible Notes) with a face value of \$0.05 each to sophisticated and professional investors (within the meaning of section 708(8) and 708(11) of the Corporations Act), to raise \$3,000,000. The placement is to be undertaken in a single tranche on 24 October 2014 ("Issue Date") to Wyllie Group Pty Limited ("Noteholder").

The Convertible Notes will be issued without a disclosure document under Part 6D.2 of the Corporations Act.

Shareholder approval for the issue of the Convertible Notes was not required.

A summary of the rights and liabilities attaching to the Convertible Notes are set out in section 4 below.

##### **1.2 Use of funds**

The funds raised (A\$3 million) will be applied towards capital expenditure on the Fairway Project and for general working capital.

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## 1.3 Effect of the issue on Target

The principal effects of the issue of the Convertible Notes on Target will be to:

- (a) increase Target's cash reserves by \$3 million immediately upon the issue of the convertible notes.;
- (b) increase the indebtedness of Target by an amount of \$3 million. The indebtedness created by the issue of the Convertible Notes will be reduced to the extent that the convertible notes are converted to ordinary shares at the Noteholders' option; and
- (c) if the Convertible Notes are converted, either in whole or in part, Target's equity capital will increase by that number of Shares issued upon conversion. If converted in full, the Convertible Notes would entitle Noteholders to acquire an aggregate of 60,000,000 new fully paid ordinary shares in the capital of Target (**Shares**) based on the conversion formula below:

$$\frac{\text{Principal Amount}}{\text{Conversion Ratio}}$$

Where:

"Principal Amount" means, in respect of each Convertible Note at any time, the outstanding principal amount of that convertible note; and

"Conversion Ratio" means each Convertible Note, if converted, will convert into one Share.

## 1.4 Effect on Target Share Capital

The effect of the issue of the Convertible Notes on the capital structure of the Company is set out below.<sup>1</sup>

| Type of security  | Securities prior to the issue of the Convertible Notes | Securities following the issue of the Convertible Notes |
|-------------------|--|---|
| Shares            | 454,324,588  | 454,324,588   |
| Options           | 750,000 <sup>2</sup>                                   | 750,000 <sup>2</sup>                                    |
| Convertible Notes | 119,422,000 <sup>3</sup>                               | 179,422,000 <sup>4</sup>                                |

### Notes:

1. Assumes that no Shares are issued or Options exercised.
2. 750,000 unquoted Options exercisable at 12 cents each on or before 24 October 2014.



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3. Comprises 119,422,000 Existing 2014 Convertible Notes with a face value of 5 cents each and a maturity date of 31 March 2017 and secured by a first ranking security over the Company's interest in the Fairway Project.
4. Comprises:
  - (a) 119,422,000 Existing 2014 Convertible Notes with a face value of 5 cents each and a maturity date of 31 March 2017 and secured by a first ranking security over the Company's interest in the Fairway Project; and
  - (b) 60,000,000 New Convertible Notes with a face value of 5 cents each and a maturity date being the earlier of 31 March 2017 and 14 days after settlement of the sale of Target's interests in the Fairway Project, and secured by a second ranking security over the Company's interest in the Fairway Project.

The number of Shares to be issued to Noteholders (if any) will depend upon whether the Convertible Notes are converted in whole or in part.

If all Convertible Notes are converted (and assuming that no other Shares are issued, Options are exercised or convertible notes are converted), 60,000,000 new Shares would be issued to Noteholders, being an aggregate maximum shareholding of approximately 11.67%.

Wyllie Group Pty Limited currently holds 45,550,814 Ordinary Shares and 20,000,000 Existing 2014 Convertible Notes. Its maximum potential shareholding assuming it converts all of its Convertible Notes and all of its Existing 2014 Convertible Notes (and assuming that no other Shares are issued, Options are exercised or convertible notes are converted) would be 125,550,814 which would represent 23.5% of the Company's share capital.



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### 2. IMPACT ON TARGET'S FINANCIAL POSITION

Set out below is a pro forma consolidated statement of financial position for Target (audited) as at 30 June 2014, adjusted to reflect only the placement of the Convertible Notes.

|                                      | Audited Historical<br>Consolidated Statement<br>of Financial Position | Unaudited Pro Forma<br>Consolidated Statement of<br>Financial Position |
|--------------------------------------|---|--|
| <b>Current Assets</b>                |   |  |
| Cash and cash equivalents            | 3,719,166   | 6,719,166  |
| Trade and other receivables          | 1,315,784   | 1,315,784  |
| Other financial assets               | 50,000  | 50,000   |
| <b>Total Current Assets</b>          | <b>5,084,950</b>  | <b>8,084,950</b>   |
| <b>Non Current Asset</b>             |   |  |
| Property, plant & equipment          | 17,049,176  | 17,049,176   |
| <b>Total Non Current assets</b>      | <b>17,049,176</b>   | <b>17,049,176</b>  |
| <b>Total Assets</b>                  | <b>22,134,126</b>   | <b>22,134,126</b>  |
| <b>Current Liabilities</b>           |   |  |
| Trade and other payables             | 3,289,766   | 3,289,766  |
| <b>Total Current Liabilities</b>     | <b>3,289,766</b>  | <b>3,289,766</b>   |
| <b>Non Current Liabilities</b>       |   |  |
| Convertible notes                    | 4,970,472   | 7,624,770  |
| <b>Total Non Current liabilities</b> | <b>4,970,472</b>  | <b>7,624,770</b>   |
| <b>Total Liabilities</b>             | <b>8,260,238</b>  | <b>10,914,536</b>  |
| <b>Net Assets</b>                    | <b>13,873,888</b>   | <b>14,219,590</b>  |
| <b>Equity</b>                        |   |  |
| Issued Capital                       | 33,492,432  | 33,492,432   |
| Reserves                             | 1,300,525   | 1,646,227  |
| Accumulated losses                   | (20,919,069)  | (20,919,069)   |
| <b>Total Equity</b>                  | <b>13,873,888</b>   | <b>14,219,590</b>  |

#### Assumptions for Unaudited Pro Forma Consolidated Statement of Financial Position

The unaudited proforma Consolidated Statement of Financial Position set out above in column 1 represents the audited Consolidated Statement of Financial Position as at 30 June 2014 adjusted for the following transaction:

- The issue of 60,000,000 Convertible Notes to raise \$3,000,000.



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### 3. RIGHTS AND LIABILITIES ATTACHING TO THE CONVERTIBLE NOTES

The rights and liabilities in relation to Convertible Notes are set out below.

|                              |  |
|------------------------------|--|
| <b>Instrument</b>            | Unlisted convertible notes in Target Energy Limited ( <b>Convertible Notes</b> )   |
| <b>Total Facility</b>        | A\$3.0 million   |
| <b>Offer Structure</b>       | A\$3.0 million (60.0 million Convertible Notes, pursuant to ASX Listing Rule 7.1 capacity)   |
| <b>Maturity Date</b>         | The earlier of: <ul style="list-style-type: none"><li>i) 31 March 2017,</li><li>ii) the date that is 14 days after the settlement of the sale of all of the Issuer's interest in the Fairway Project; or</li><li>iii) any earlier date on which the Principal Amount is required to be repaid in full.</li></ul>   |
| <b>Face Value</b>            | 5.0 cents  |
| <b>Coupon Rate</b>           | 10.0% p.a., payable semi-annually in arrears   |
| <b>Maturity Fee</b>          | The higher of: <ul style="list-style-type: none"><li>i) 10% p.a. accrued interest on the Face Value of the Convertible Notes held; and</li><li>ii) the amount that equals 0.5% of the pre-tax proceeds received by the Company in relation to the sale of all of the Company's interest in the Fairway Project.</li></ul>  |
| <b>Conversion Ratio</b>      | 1:1 (Each Convertible Note, if converted, will convert into one fully paid ordinary share of Target Energy).   |
| <b>Conversion</b>            | Convertible at the election of the noteholder at any time during the period commencing on the Commencement Date and ending on the Maturity Date.   |
| <b>Ranking on Conversion</b> | Upon conversion all issued shares will rank equally in all respects with existing Shares.  |
| <b>Transferability</b>       | The Convertible Notes will be transferable but only to sophisticated or professional investors.  |
| <b>Voting Rights</b>         | The Convertible Notes shall not provide for any voting rights at shareholder meetings of the Issuer.   |
| <b>Early Redemption</b>      | The Issuer may elect to redeem the Convertible Notes early. If the Issuer redeems the notes early it must pay: <ul style="list-style-type: none"><li>i) the principal amount on all unconverted Convertible Notes held by the noteholder on that date;</li><li>ii) all unpaid accrued interest and the overdue Interest (if any); and</li><li>iii) the Maturity Fee.</li></ul> |
| <b>Security</b>              | The Notes will be secured by a second-ranking security charge over the Company's interest in the Fairway project   |

### 4. RIGHTS AND LIABILITIES ATTACHING TO SHARES ISSUED ON CONVERSION OF THE CONVERTIBLE NOTES

Shares issued on conversion of the Convertible Notes will rank equally in all respects with other Shares on issue. The following is a summary of the more significant rights and liabilities attaching to Shares. This summary is not



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exhaustive and does not constitute a definitive statement of the rights and liabilities of shareholders. To obtain such a statement, persons should seek independent legal advice.

Full details of the rights and liabilities attaching to Shares are set out in Target's Constitution, a copy of which is available for inspection at Target's registered office during normal business hours.

**a. General meetings**

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with section 249D of the Corporations Act and the Constitution of the Company.

**b. Voting rights**

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of shareholders or classes of shareholders:

- (a) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (b) on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- (c) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for each Share held, but in respect of partly paid shares shall have such number of votes as bears the same proportion to the total of such Shares registered in the Shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited).

**c. Dividend rights**

Subject to the rights of any preference Shareholders and to the rights of the holders of any shares created or raised under any special arrangement as to dividend, the Directors may from time to time declare a dividend to be paid to the Shareholders entitled to the dividend which shall be payable on all Shares according to the proportion that the amount paid or credited as paid is of the total amounts paid and payable in respect of such Shares.

The Directors may from time to time pay to the Shareholders any interim dividends as they may determine. No dividend shall carry interest as against the Company. The Directors may set aside out of the profits of the Company any amounts that they may determine as reserves, to be applied at the discretion of the Directors, for any purpose for which the profits of the Company may be properly applied.

Subject to the ASX Listing Rules and the Corporations Act, the Directors may in their absolute discretion establish a dividend reinvestment plan on such terms and conditions as the Directors think fit and which provides for any dividend which the Directors may declare from time to time payable on Shares which are participating Shares in the dividend reinvestment plan to be applied by the Company to the payment of the subscription price of Shares.





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**d. Winding-up**

If the Company is wound up, the liquidator may, with the authority of a special resolution, divide among the Shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders.

The liquidator may, with the authority of a special resolution, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no Shareholder is compelled to accept any shares or other securities in respect of which there is any liability.

**e. Shareholder liability**

As the Shares issued will be fully paid shares, they will not be subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

**f. Transfer of shares**

Generally, shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act and the ASX Listing Rules.

**g. Future increase in capital**

The issue of any new Shares is under the control of the Directors of the Company. Subject to restrictions on the issue or grant of Securities contained in the ASX Listing Rules, the Constitution and the Corporations Act (and without affecting any special right previously conferred on the holder of an existing share or class of shares), the Directors may issue Shares as they shall, in their absolute discretion, determine.

**h. Variation of rights**

Under section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of Shareholders vary or abrogate the rights attaching to shares.

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up, may be varied or abrogated with the consent in writing of the holders of three quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

**i. Alteration of constitution**

In accordance with the Corporations Act, the Constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting. In addition, at least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.





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### 5. COMPLIANCE WITH CONTINUOUS DISCLOSURE

As a “disclosing entity” (as defined in section 111AC of the Corporations Act), Target is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, Target is required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of Target’s securities.

Target, as a disclosing entity under the Corporations Act states that:

- (a) it is subject to regular reporting and disclosure obligations;
- (b) copies of documents lodged with the ASIC in relation to Target (not being documents referred to in section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, the offices of the ASIC; and
- (c) it will provide a copy of each of the following documents, free of charge, to any person on request:
  - (i) the annual financial report most recently lodged by the Company with the ASIC;
  - (ii) any half-year financial report lodged by Target with the ASIC after the lodgement of the annual financial report referred to in (i) and before the lodgement of this notice with the ASIC; and
  - (iii) any continuous disclosure documents given by Target to ASX in accordance with the ASX Listing Rules as referred to in section 674(1) of the Corporations Act after the lodgement of the annual financial report referred to in (i) and before the lodgement of this notice with the ASIC.

Copies of documents lodged with ASIC in relation to Target may be obtained from, or inspected at an ASIC office.

Details of documents lodged by the Company with ASX since the date of lodgement of the Company’s latest annual financial report and before the lodgement of this Cleansing Notice are set out in the table below.

| Date       | Description of Announcement                 |
|------------|---|
| 22/10/2014 | Boardroom Radio Webcast                     |
| 21/10/2014 | Appendix 3B – Non Renounceable Rights Issue |
| 21/10/2014 | Entitlement Issue Prospectus                |
| 21/10/2014 | Appendix 3B                                 |
| 21/10/2014 | Notice of Annual General Meeting/Proxy Form |
| 21/10/2014 | Reinstatement to Official Quotation         |

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| Date       | Description of Announcement        |
|------------|------------------------------------|
| 21/10/2014 | Successful Capital Raising         |
| 20/10/2014 | Suspension from Official Quotation |
| 17/10/2014 | Annual Report to Shareholders      |
| 16/10/2014 | Trading Halt Request               |
| 16/10/2014 | Trading Halt                       |
| 03/10/2014 | Appendix 3B                        |
| 02/10/2014 | Expiry of Unlisted Options         |

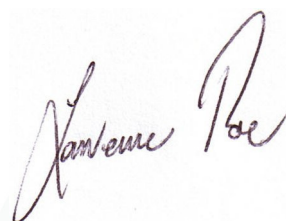
ASX maintains files containing publicly available information for all listed companies. The Company's file is available for inspection at ASX during normal office hours. The announcements are also available through the Company's website [www.targetenergy.com.au](http://www.targetenergy.com.au).

### 6. INFORMATION EXCLUDED FROM CONTINUOUS DISCLOSURE NOTICE

As at the date of this Cleansing Notice, Target is not aware of any information that:

- (a) has been excluded from a continuous disclosure notice in accordance with the ASX Listing Rules; and
- (b) investors and their professional advisers would reasonably require for the purposes of making an informed assessment of:
  - (i) the assets and liabilities, financial position and performance, profits and losses and prospects of Target; or
  - (ii) the rights and liabilities attaching to the Convertible Notes being issued.

For and on behalf of TARGET ENERGY LIMITED



**Laurence Roe**  
**Managing Director**