

## Quarterly Report for the quarter ending 30 September 2014

- Fairway operations continue with 5 wells drilled or completed during the quarter
- Drilling of further Fairway wells planned
- Company secures additional funding with Convertible Note Issue
- Entitlement Issue underway

### 1. Operations

#### Permian Basin, Texas

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

While recent drilling at BOA North #5 and Taree 193 #1 has brought the total number of wells drilled to date at Fairway to fourteen, at the end of the reporting period three wells were still awaiting completion and as such, the results of these recent operations are yet to be fully reflected in increased production statistics and cash-flow reporting.

##### 1.2. Drilling

###### 1.2.1. BOA North #5 (Target 50% WI)

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

Well Reporting Summary – BOA North #5		
Name and Type of Well	BOA North #5, Oil Development Well	
Well Location	Howard County, Texas	
Lease Description	S12 , Block 33 T-2S, A-1353, T&P RR Survey	
TEX Working Interest	50%	
Total Depth:	3,102m. (Total Depth)	All reported depths are measured below the Rotary Table (RT) on the rig floor.
Progress	Run intermediate casing. Drill ahead to 3,102m (10,177 ft). Run wireline logs. Run and cement production casing. Rig released 7am 1 Sep 2014.	

**Table 1**



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### 1.2.2. Taree 193 #1 (Target 50% WI)

Drilling at the **Taree 193 #1** well in Glasscock County was completed on 18 September 2014 after the well had been drilled to a Total Depth of 2,988m (9,803 ft). Refer Table 2. A preliminary assessment of the wireline logs data was encouraging and the well has been completed for production. It is expected that potentially productive pay zones in the Ellenburger and Fusselman zones will be tested initially prior to any decision regarding timing of a fracture stimulation program.

Well Reporting Summary – Taree 193 #1	
Name and Type of Well	Taree 193 #1, Oil Exploration Well
Well Location	Glasscock County, Texas
Lease Description	S193, Bl 28, A-815 and A-A483; W&NW RR Co Survey
TEX Working Interest	50%
Report Date	7:00 pm 18/09/14 (Western Aust Standard Time) / 6:00 am 18/09/14 (USA Central Daylight Time)
Total Depth	All reported depths are measured below the Rotary Table (RT) on the rig floor.
Progress	Drill ahead to 2,988m (9,803 ft – Total Depth); run wireline logs, run production casing. Well to be completed for oil and gas production. Rig released on 18 Sep 2014.

**Table 2**

### 1.3. Completions

#### 1.3.1. Homar #1

A five stage fracture stimulation of the lower Wolfberry section was performed at Homar #1 on 8 July 2014. The program covered a 329m interval, using approximately 17,300 barrels of load water. The well was put on pump on 1 August 2014 and at last report was producing 49 BOPD plus 166 BWPD.

Well Reporting Summary – Homar #1	
Name and Type of Well	Homar #1, Oil & Gas producer
Well Location	Howard Co, Texas
Lease	SE/4 S24 Bl 35 A-1538; T&P RR Co Survey, Howard Co
TEX Working Interest	50%
Geological Rock Type	Wolfberry – carbonates, shales and minor sandstone
Depth of Zones Tested	2,832m – 3,161m
Type of Tests Undertaken	Ongoing flow-back after fracture stimulation
Duration of Tests Undertaken	Flowback commenced 9 July 2014
Hydrocarbon Phases Recovered	Oil, Gas
Other recovery	Water
Choke Size Used	On pump
Flow Rates	49 BOPD + 166 BWPD (average over 23-28 Aug 2014)
Number of Fracture Stimulations	5 zones stimulated
Material Volumes of Non-Hydrocarbon Gases	Nil

**Table 3**

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### 1.3.2. BOA North #4

BOA North #4 is located approximately 550m (1,800ft) north-east of the Company's 2011 BOA 12 #1 well. 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 32 BOPD with 34 mcf/d and 242 BWPD through September 2014.

Well Reporting Summary – BOA North #4	
Name and Type of Well	BOA North #4, Oil & Gas producer
Well Location	Howard Co, Texas
Lease	S12 , Block 33 T-2S, A-1353, T&P RR Survey, Howard Co
TEX Working Interest	50%
Geological Rock Type	Wolfberry – carbonates, shales and minor sandstone
Depth of Zones Tested	2,632m – 2,973m
Type of Tests Undertaken	Ongoing flow-back after fracture stimulation
Duration of Tests Undertaken	Flowback commenced 9 July 2014
Hydrocarbon Phases Recovered	Oil, Gas
Other recovery	Load Water (total load now recovered: 67%)
Choke Size Used	Various
Flow Rates	32 BOPD + 32 mcf/d + 210 BWPD (1-28 Sep 2014)
Number of Fracture Stimulations	4 zones stimulated
Material Volumes of Non-Hydrocarbon Gases	Nil

**Table 4**

### 1.3.3. Ballarat 185 #1

Ballarat 185 #1 was fracture stimulated on 11 October 2014. The nine stage program, covering a 741m interval from the Wolfcamp to the Devonian sections, used approximately 28,600 barrels of load water. Approximately 8,150 barrels of load water have been flowed back to date with an increasing oil cut. The well is expected to be put on pump within a week.

Well Reporting Summary – Ballarat 185 #1	
Name and Type of Well	Ballarat 185 #1, Oil & Gas producer
Well Location	Glasscock Co, Texas
Lease	S185, Bl 28, A-815 and A-A483, Waco & Northwestern Survey
TEX Working Interest	50%
Geological Rock Type	Wolfberry – carbonates, shales and minor sandstone
Depth of Zones Tested	2,168 – 2,909m
Type of Tests Undertaken	Ongoing flow-back after fracture stimulation
Duration of Tests Undertaken	Flowback commenced 14 October 2014
Hydrocarbon Phases Recovered	Oil
Other recovery	Load Water (total load now recovered: 29%)
Choke Size Used	Various
Flow Rates	22 BOPD + 387 BWPD (well still cleaning up; 22 Oct 14)
Number of Fracture Stimulations	9 zones stimulated
Material Volumes of Non-Hydrocarbon Gases	Nil

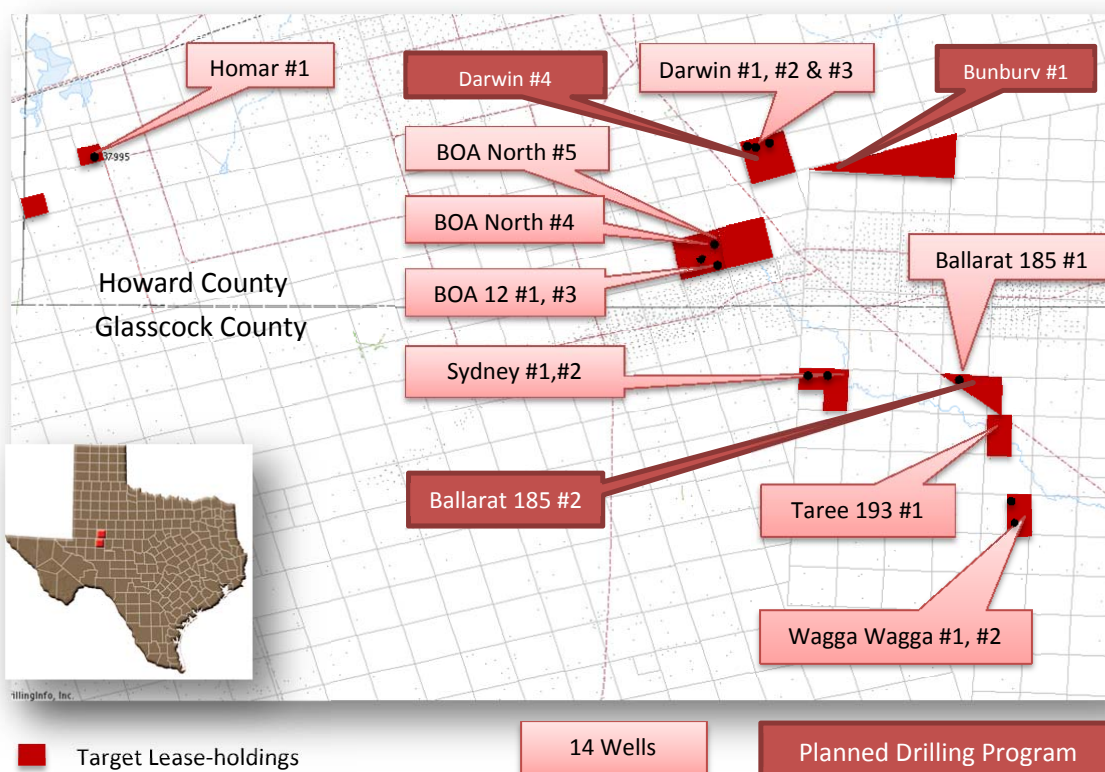
**Table 5**

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## 1.4. Forward Program

### 2014 Drilling Program

A further three wells are planned to be drilled in the Fairway Project including new wells on the Company's Darwin, Ballarat and Bunbury lease-holdings (Fig 1). Darwin #4 is planned to commence drilling in mid-November, with drilling at Bunbury and Ballarat to follow in 2015.



**Figure 1: Target Energy Fairway Project lease-holdings.**

### Leases

As previously advised, recent title work in respect to the Sydney leases raised some issues regarding the exact working interests held by the individual partners, including Target. Whilst Target does not expect these title issues to have a material impact and expects to be compensated in the event of any adverse adjustment, we are working to clarify the position.

## 2. Current Indicative 2014 Drilling Schedule

Estimated Timing*	Prospect	Location	Target Working Interest (WI)
November 2014	Darwin #4	Howard Co, Tx	60%
Q1/2 2015	Ballarat #2	Glasscock Co, Tx	60%
Q1/2 2015	Bunbury #1	Howard Co, Tx	60%

\*Timing indicative only – actual order, timing and well selection will vary.

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### 3. Production (1 July – 30 Sept)

Project	TEX WI	Gross Gas Prod'n in Period (mmcf)	Cumulative Gross Gas Prod'n (mmcf)	Net Gas Prod'n in Period (mmcf)	Cumulative Net Gas Prod'n (mmcf)	Gross Oil Prod'n in period (BO)	Cumulative Gross Oil Prod'n (BO)	Net Oil Prod'n in Period (BO)	Cumulative Net Oil Prod'n (BO)
Section 28+	25%	10.3	2,390.8	2.6	597.7	24	91,409	6	22,852
E. Chalkley*	35%	0	60.0	0.0	21.0	0	115,511	0	40,429
Merta	25%	13.2	420.3	3.3	105.1	106	5,356	27	1,339
Fairway	35%-60%	37.2	243.1	20.0	142.3	20,528	136,878	10,257	78,857
<b>Total</b>		<b>60.7</b>	<b>3,114.2</b>	<b>25.9</b>	<b>866.1</b>	<b>20,658</b>	<b>349,154</b>	<b>10,290</b>	<b>143,477</b>

Production fell overall in comparison to the previous quarter with the flush production seen at Fairway early in the previous quarter (mainly Sydney #2) easing considerably. In addition, wells were shut-in at Section 28 for part of the reporting period due to repairs required in the main pipeline system and at East Chalkley with a field work-over program scheduled there for Q4 2014. Production at Fairway rose 16% during the reporting period and is expected to be further bolstered as wells drilled but not completed in the reporting period are brought on line – notably BOA North #5, Taree 193 #1 and Ballarat 185 #1.

Net Production is scaled to Target's Working Interest, before royalties; mmcf = million cubic feet; mmcfgd = million cubic feet of gas per day; BO = barrels of oil, BOPD = barrels of oil per day, BOEPD = barrels of oil equivalent per day (Target reports a thermal equivalent when combining gas and oil production, where 1BOE = 6 mcf).

### 4. Lease Holdings

Target Energy	Lease Name	County / Ph	Description	Depth Limits	TEX WI	Gross Acres	Net Acres
Fairway							
	BOA	Howard	S12 , Block 33 T-2S, A-1353, T&P RR Survey	None	50%	640.0	320.0
	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
	Bunbury	Howard	S102 A-1405; S103 A-1405; S104 A-1495; Block 29 Waco & NW Survey	None	60%	918.0	550.8
	Ballarat	Glasscock	S 184 and 185, BI 28, A-815 and A-A483, Waco & Northwestern Survey	None	50%	160.0	80.0
			S 184 and 185, BI 28, A-815 and A-A483, Waco & NW Survey	None	60%	195.7	117.4
	Taree	Glasscock	W/2 S193, BI 28, A-815 and A-A483, Waco & NW Survey	None	60%	320.0	192.0
	Sydney	Glasscock	NW/4 & E/2 S 188 Block 29 A-170 W&NW Survey	None	60%	480.0	288.0
	"Section 4"	Howard	S4, Block 32, T-2-S, A-1354 T & P RR Co Survey	None	60%	440.0	264.0
	Homar	Howard	SE/4 S24 BI 35 A-1538; T&P RR Co Survey	None	50%	100.0	50.0
	Homar (Robb)	Howard	SW/4 S26 BI 35 A-1415; T&P RR Co Survey	None	60%	160.0	96.0
	Wagga Wagga	Glasscock	E/2 S221, Block 29, A-496; W&NW RR Co Survey	None	35%	305.0	106.8
	Ballarat West	Glasscock	part NW/4 of S185, BI 29, W&NW RR Co. Survey	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	7,650 ft - 7,880 ft	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	8,000 ft - 10,000 ft	35%	714.9	250.2
<b>Total</b>						<b>5580</b>	<b>2825</b>

## **Quarterly Report** for the quarter ending 30 September 2014

### **5. Corporate**

#### **5.1. Sale of 10% Interest in Fairway Project to Victory Energy**

On 2 July 2014, Target Energy, through its wholly owned subsidiary TELA Garwood LP (“TELA Garwood”), confirmed the sale of a 10% working interest in its Fairway Project to Aurora Energy Partners (“Aurora”), a company associated with 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 the Target board concluded that there was no advantage to Target in extending the closing process any further. 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 Purchase and Sale Agreement (“PSA”) terminated as to those assets.

Accordingly, in addition to the First Closing payment of A\$2.7m (US\$2.5m) from Aurora on 30 June 2014 (as announced), Target has retained its 60% working interest in the Robb lease (part of Homar) along with the Bunbury, Section 4 and Taree leases and in part of the Ballarat and Darwin leases. Target is assessing all future options in this matter.

#### **5.2. Capital Raising**

On 21 October 2014, Target advised that it had agreed terms with its largest shareholder, Wyllie Group Pty Ltd, to raise A\$3.0m by issuance of secured Convertible Notes (October 2014 Convertible Notes). The Company appreciates the ongoing support of its major shareholder.

In addition, Target is undertaking a non-renounceable pro-rata entitlement issue (Entitlement Issue) to raise up to A\$2.9m. Eligible shareholders will be able to subscribe for 1 new share in Target, for every 7 existing shares they hold at the Record Date, at an issue price of A\$0.045 per share. The issue price represents a 7% discount to volume weighted average price (VWAP) over the last 30 days. Target has secured A\$1.9m of firm entitlement and underwriting commitments in relation to the Entitlement Issue largely from directors and other existing shareholders.

Funds raised will be applied predominantly to the current Fairway drilling program.

#### **5.3. Fairway Project Divestment**

As announced on 12 September 2014, it is Target’s intention to seek, in conjunction with the project operator and other partners, to divest its Permian Basin Fairway project interest in the first quarter of 2015. To this end the parties are in the process of selecting an adviser to assist with the sale process.

At the time of the sale, it is the Company’s intention that noteholders be given the opportunity to either redeem or convert their notes to enable discharge of the security over the Fairway Project.



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Key terms of the October 2014 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

### 5.4. Annual General Meeting

Target Energy's Annual General meeting is to be held at 11am (WST) on 21 November 2014 at the Vic Boardroom, 226 Hay Street Subiaco WA 6008.

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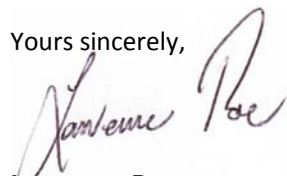
### 6. Disclosures

Disclosures Pursuant to ASX Waiver dated 6 November 2013								
2013 Convertible Notes		Face Value of 7c, maturity 1 October 2014					No. that can be issued before 1 October 2014 pursuant to shareholder approvals and ASX waiver dated 6 November 2013	
No. Issued	Date of Issue	Face Value	No. Redeemed	Date of Redemption	Face Value	No. on Issue at 30 Sep 2014	Face Value	
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	0	0	0

Early Redemption Options		Exercise price of 7 cents, expiry 1 October 2014					No. that can be issued before 1 October 2014 pursuant to shareholder approvals and ASX waiver dated 6 November 2013	
No. Issued	Date of Issue	No. Exercised	No. on Issue at 30 Sep 2014					
8,571,428	7 Mar 2014	0						
17,142,858	11 Apr 2014	0						
25,714,286		0	25,714,286					0

For further information, please contact the company at [admin@targetenergy.com.au](mailto:admin@targetenergy.com.au).

Yours sincerely,



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

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