ASX Announcement

28 September 2018

Target Energy enters Agreement to divest Fairway Project

Target Energy Limited (ASX:TEX) ("'Target" or "the Company") is pleased to announce that it has entered into a binding agreement ("Agreement") to restructure and recapitalise the Company. Under the Agreement, Target has agreed to sell 100% of its interests in the Fairway Project to Fairway Energy Limited ("Fairway Energy","FEL").

HIGHLIGHTS

- Divestment of the Fairway Project to Fairway Energy Ltd in exchange for extinguishing:
  - 90% of the face value of the existing Convertible Noteholder debt, equating to approximately $8.07M
  - 100% of the Accrued Interest on the Convertible Noteholder debt, equating to approximately $1.68M
- Conversion of remaining Convertible Noteholder debt (10%), existing Secured Loans (100%) and 25% of outstanding Director's fees, totalling approximately $3.77M, into Target shares at $0.001 per share (pre-consolidation basis)
- Current litigation asset in relation to the Fairway Project to remain with Target

Additional Information

- Company plans to undertake a 40:1 consolidation
- The Agreement is subject to shareholder, Convertible Noteholder and regulatory approvals, including approval under Listing Rule 11.2
- Following completion, the Company will undertake a capital raising of approximately $0.5M at an issue price of $0.001 per share (pre-consolidation basis) ("Capital Raising")
- ASX takes no responsibility for this announcement
- The Company confirms that it is currently in compliance with Listing Rule 3.1 obligations.

Corporate information

ASX Code: TEX
OTCQX Code: TEXQY

Board of Directors
Laurence Roe, Managing Director
Stephen Mann, Director
Matthew Battrick, Director

Dean Calder, Company Secretary

ABN
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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 that information in the form and context in which it appears.

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Target has assessed a number of opportunities in the past twelve months with a view to seeking to enhance shareholder value. The Target Board believes the proposed transaction provides a timely opportunity for the Company.

In respect of the proposed transaction with Fairway Energy, Target Managing Director Laurence Roe commented, "This transaction provides a compelling prospect for the Company's existing shareholders and Convertible Noteholders. The Target shareholders will extinguish a large debt position while, post completion of the transaction, the Company will focus on value-accretive transactions. The Noteholders will benefit both from direct ownership of the Fairway project through their proposed holdings in Fairway Energy and in a direct holding in Target Energy."

TRANSACTION OVERVIEW

Upon the terms and subject to the conditions in the Agreement, Target, Fairway Energy, InvestMet Limited and the Company's secured lenders have agreed to complete the following arrangements (together, the "**Transactions**") on the basis that all Transactions are completed contemporaneously:

Disposal of Fairway Project and Debt Restructure

The proposed Transactions are described below and remain subject to relevant shareholder, noteholder and regulatory approvals. Table 1 describes Target's current Convertible Notes, Secured Loans and outstanding Directors fees.

Current Debt	A$
1st Tranche Secured Loans	**$2.65M**
1st Tranche Convertible Notes	**$5.97M**
2rd Tranche Convertible Notes	**$3.00M**
3rd Tranche Directors Secured Loans	**$0.15M**
Outstanding Directors Fees	**$0.32M**
Accrued Interest	**$1.95M**
Total	**$14.03M**

Table 1

1. Target proposes to sell its interests in the Fairway Project to FEL - a public unlisted company to be owned by the Convertible Noteholders and holders owed accrued interest under their debts - in exchange for

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90% of the face value to the existing Convertible Noteholder debt being extinguished and 100% of the Accrued Interest being extinguished.

(a) Shares in FEL to be issued, pro-rata, to existing Convertible Noteholders and holders of Accrued Interest. Specifically:

   (i) FEL Shares to be issued to existing 1st Tranche Convertible Noteholders and holders of Accrued Interest;

   (ii) FEL Class B Shares to be issued to the existing 2nd Tranche Convertible Noteholder;

(b) The FEL shares and FEL Class B shares will rank equally in all aspects other than in any cash distribution following a sale of the properties, where the revenue distribution will pay FEL shares first, pro-rata and to the value of the initial allocation plus any capital raising. Surplus revenue will then be paid to FEL Class B shares to the value of the initial allocation. Any surplus or further revenue will then be distributed to all classes, pro-rata.

(c) Fairway Energy to be independently funded by the Convertible Noteholders or a third party.

2. Existing 1st Tranche Secured Loans and 3rd Tranche Director's Secured Loans to be converted at 100% of face value to Target shares at $0.001 per share (pre-consolidation basis).
3. Outstanding Directors Fees to be converted at 25% of face value to Target shares at $0.001 per share (pre-consolidation basis), with the balance owing to be paid by Target from the proceeds of the Fairway project litigation (if any).
4. Convertible Noteholders will be issued Target shares, for the balance of the face value of their Convertible Notes (ie 10%) at $0.001 per share (pre-consolidation basis). Please note that ASX has advised that it will consider the application of the escrow provisions to these Target shares in due course.
5. Existing legal action by Target in regards to the Fairway Project (and any resulting settlement) to be retained for the benefit of Target.
6. All proceeds from the sale of Fairway to be retained by Fairway Energy.
7. Target will undertake a share consolidation on a ratio of 40:1 basis.
8. Target to undertake the Capital Raising to raise a minimum of $0.5M (subject to shareholder approval). Funds will be used primarily to cover ongoing costs of Target including administrative expenses and costs of advisers and personnel and other costs in identifying and progressing a new transaction to assist the Company to be reinstated to trading on ASX.
9. Following the restructure and recapitalisation, the Company will focus on acquiring value-accretive assets and obtaining re-quotation of the Company's securities on ASX.

FEL is an unlisted public company that was incorporated in November 2017 and is an unrelated party to Target. Its board of directors includes Wayne McGrath and Chris Rowe who are of the view that they have the relevant experience to manage the Fairway Project.

Funding of Target

Since 10 July 2017, InvestMet has continued to fund Target, with approximately $2.35M provided to date in accordance with existing loan documentation dated 11 May 2017.

Included in the funding after 26 October 2017 was a component directed to the ongoing Fairway Project (approx $360,000). FEL will acknowledge and record Target as a first priority creditor for 75% of all the amount contributed to Target by InvestMet for Fairway, as well as 75% of all annual leave and long service leave benefits payable to the current managing director of Target, with the total amount to be repaid from operating cashflows or sale proceeds from the Fairway Project.

Conditions of the Transactions.

The Agreement and the Transactions contemplated by it and each party's obligation to give legal effect to them are subject to the satisfaction or waiver of the following conditions precedent:

(i) Target obtaining all shareholder approvals (including approval under Listing Rule 11.2) that are necessary to give effect to the Transaction and to allow Target to complete the matters set out in the Agreement (Target is currently finalising a notice of meeting for shareholders and it is expected that the general meeting will be held in November);

(ii) Fairway Energy obtaining all shareholder approvals that are necessary to give effect to the Transaction and to allow Fairway to complete the matters set out in the Agreement;

(iii) the receipt of all approvals from the 1st Tranche Convertible Noteholders that are necessary to give effect to the Transaction and to allow the Completion of the matters set out in the Agreement (a meeting of the 1st Tranche Convertible Noteholders will be held on 28 September 2018); and

(iv) receipt of all necessary governmental, regulatory and other third-party consents and approvals to affect the Transactions

Each Party must use its best endeavours to satisfy each of the Conditions as soon as practicable after the Execution Date. If any of the conditions are not satisfied on or before 31 December 2018 (or such later date that the parties agree in writing), the Agreement will be at an end and the parties will be released from their obligations under the Agreement.

As per above, in order to complete the Transactions, Target needs to obtain all relevant shareholder approvals, accordingly, a notice of meeting is currently being prepared. It is envisaged that the notice of meeting will be dispatched to shareholders shortly, with the general meeting to be held in early November. For further details regarding the Transactions and specific shareholder approvals required please refer to the notice of meeting once released.

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ANTICIPATED TIMELINE

Event	Indicative Date for Satisfaction
Execution of Agreement	26 September 2018
Target obtaining noteholder approvals	28 September 2018
Target obtaining all necessary shareholder regulatory and third-party consents.	November 2018
Completion of Fairway divestment and debt conversion	Late November 2018
Completion of Capital Raising.	Late December 2018

* The above dates are indicative only and may change without notice.

The Company's securities will remain suspended until the Company acquires a new undertaking and, if required, re-complies with the requirements of Chapters 1 and 2 of the ASX Listing Rules.

EFFECT ON THE COMPANY

Set out below is a summary of the approximate impact that the Transactions will have on the issued capital of Target. The indicative capital structure assumes the transaction proceeds on the basis of a 40:1 consolidation and the Capital Raising of $0.5M at an issue price per share of $0.04 (post consolidation basis).

CURRENT AND INDICATIVE CAPITAL STRUCTURE

Current Capital Structure and Major Shareholders	Pre-Consolidation Shares	Percentage
Wyllie Group Pty Ltd	121,468,838	9.4%
Little Breton Nominees Pty Ltd	78,409,274	6.1%
Gunz Pty Limited	79,596,062	6.2%
InvestMet and Associates	140,992,898	10.9%
Existing Target Shareholders	868,539,356	67.4%
Total	**1,289,006,428**	**100.0%**

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Indicative Capital Structure Post Transactions and Post Consolidation (undiluted)	Post-Consolidation Shares	Percentage
Wyllie Group Pty Ltd (inc 1st Tranche Secured Loan & 2nd Tranche Convertible Notes)	18,036,721	13.0%
Little Breton Nominees Pty Ltd	1,960,232	1.4%
Gunz Pty Limited	1,989,902	1.4%
InvestMet and Associates (inc. 1st Tranche Debt)	62,176,679	44.7%
1st Tranche Secured Loans - Directors portion	2,625,000	1.9%
1st Tranche Convertible Notes (exc Wyllie)	12,427,750	8.9%
3rd Tranche Secured Loans	3,625,000	2.6%
Outstanding Directors Fees	1,991,952	1.4%
Capital Raising	12,500,000	9.0%
Existing Target Shareholders	21,713,484	15.6%
Total	**139,046,720**	**100%**

Financial Impact

There will be a material effect on the Company's financial position including total assets and total equity interests. Information about the likely effects of the transaction on the Company's total assets and total equity interests (including a pro forma balance sheet) will be set out and provided to shareholders as soon as is available and no later than in connection with seeking shareholder approval for the transaction. A copy of the pro forma balance sheet is included as Appendix 1.

FURTHER UPDATES

The Company will keep shareholders informed of any developments in respect of this matter.

ENDS
For and on behalf of TARGET ENERGY LIMITED

Laurence Roe

Laurence Roe
Managing Director

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APPENDIX 1

	Statement of Financial Position as at 31 August 2018	Share conversion [1]	Capital raising [2]	Fairway Divestment [3]	Pro Forma Condensed Statement of Financial Position 31 August 2018
	$'000	$'000	$'000	$'000	$'000
CURRENT ASSETS					
Cash and cash equivalents	8	-	450	-	458
Trade and other receivables	16	-	-	369	385
TOTAL CURRENT ASSETS	24				843
NON-CURRENT ASSETS					
Property, plant and equipment	905	-	-	(905)	-
TOTAL NON-CURRENT ASSETS	905				-
TOTAL ASSETS	**929**				**843**
CURRENT LIABILITIES					
Trade and other payables	691	-	-	(678)	13
Accruals – Director Fees	318	(79)	-	-	239
Borrowings	2,853	(2,611)	-	(242)	-
Convertible Notes	8,671	(898)	-	(7,773)	-
Employee Benefits	129	-	-		129
Other current liabilities	53	-	-	-	53
TOTAL CURRENT LIABILITIES	12,715				434
TOTAL LIABILITIES	**12,715**				**434**
NET ASSETS	**(11,786)**				**409**
EQUITY					
Issued capital	39,595	3,588	500	-	43,683
Reserves	7,424	-	-	1,976	9,400
Accumulated losses	(58,805)	-	(50)	6,181	(52,674)
TOTAL EQUITY	**(11,786)**				**409**

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NOTES TO APPENDIX 1

[1] Share Conversion

a) Conversion of 25% of the Outstanding Directors Fees to Shares at $0.001 per Share (on a pre-Consolidation basis). Target has agreed that the remainder of the Outstanding Director Fees will be paid by Target from the proceeds of the Trilogy Legal Action (defined below) (if any), and where no proceeds are obtained the Outstanding Director Fees will be forgiven);
b) Conversion of the InvestMet Debt, Additional Loans and First Loans being converted to Shares at $0.001 per Share (on a pre-Consolidation basis);
c) Conversion of 10% of the face value of the First Convertible Notes ($597,110) to Shares at $0.001 per Share (on a pre-Consolidation basis); and
d) Conversion of 10% of the face value of the Second Convertible Notes ($300,000) to Shares at $0.001 per Share (on a pre-Consolidation basis).

[2] Capital Raising

The Company will, following all of the Resolutions being passed, undertake the Capital Raising by way of private placement to raise up to $500,000. The cost associated with the Capital Raising is $50,000.

[3] Fairway Divestment

Fairway Loan Agreement

a) Over the period October 2017 until June 2018, the Company funded the Fairway Project to an amount of $360,452.60 (Fairway Funding). With effect from Settlement, Fairway Energy has agreed to acknowledge and record a loan equal to $369,045.38 payable to the Company (Fairway Loan). The Fairway Loan is an amount equal to:
b) 75% of all Fairway Funding ($270,339.45); and
c) 75% of all long service and annual leave benefits payable to the current managing Director of the Company, equal to $98,705.93 (Long Service Leave and Annual Leave).
d) The Fairway Loan will be interest free and will become payable as a priority from operating cashflows of Fairway Energy or sale proceeds from the Fairway Project.

InvestMet Fairway Funding Assignment

a) On and from Settlement, it has been agreed that the liabilities and obligations of the Company pursuant to the InvestMet Fairway Funding will be assigned to and assumed by Fairway Energy. Fairway Energy intends to repay this amount following Settlement through the proceeds of a capital raising.
b) TELA Garwood has entered into an agreement with Fairway Energy and InvestMet, pursuant to which the Company has agreed to sell, and Fairway Energy has agreed to acquire the Fairway Project (Disposal Agreement). The material terms of the Disposal Agreement are as follows:
c) Consideration: In consideration for the Fairway Project, Fairway Energy will issue;
d) 7,293,639 of Fairway Shares to First Convertible Noteholders and holders of Accrued Interest; and
e) 2,700,000 of Fairway Class B Shares to Second Convertible Noteholders,

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

g) Fairway Class B Shares are shares in Fairway Energy with the same rights as Fairway Shares, however upon a sale of the Fairway Project or distribution of operating profit by Fairway Energy, sale proceeds or profits (as applicable) will be distributed to holders of Fairway Shares at a return of $1.00 per Fairway Share, prior to being distributed to holders of Fairway Class B Shares, with any surplus being distributed pro rata among the classes.

h) The Company entering into the necessary agreements and obtaining all approvals from the relevant parties, including approval from the First Convertible Noteholders, for the conversion terms set out above to fully and forever discharge the current debts of the Company, including all security arrangements

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