



## ASX Announcement

20 March 2015

### Corporate Update

US-focused oil and gas producer, Target Energy Limited ("Target"), provides the following update.

Target has been active at its Fairway Project in the Permian Basin since 2011. During that time, it has drilled 15 wells and built up a 55% working interest in 4,483 acres for a net acreage position of 2,479 acres. Average gross production in the December quarter of 2014 was 224 barrels of oil equivalent per day (BOEPD). Target reported a net reserves position on 5 September 2014 as follows <sup>1</sup>;

1P Reserves:	658,000 BOE
2P Reserves:	876,000 BOE
3P Reserves:	1,101,000 BOE

In the second half of 2014, Target and its partners appointed an advisor to seek to sell the Fairway interests.

However, oil prices have declined considerably over the past 3 to 6 months from an average of US\$94.99<sup>2</sup> for calendar year 2014 to an average price over the first 3 months of 2015 of US\$50.42<sup>2</sup>. This decline has been reflected in the share prices of oil and gas explorers and producers globally.

In early 2015, as a result of the fall in oil prices the decision was made to defer the planned divestment of the Fairway asset until such time as there is a meaningful recovery in oil prices. It was noted that an asset brought to market in the current oil price environment would not attract suitable offers. That remains Target's firm belief.

Notwithstanding the fall in oil prices and deferral of the sale process, the Company's portfolio retains significant value.

Transaction based valuation metrics, including enterprise value / net acre, are widely used industry valuation benchmarks. Below are transactions metrics from completed deals in the Midland Basin, a sub-basin of the Permian Basin in which Target holds its assets, over the past 2 years.

### 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

73 119 160 360

#### Contact details

6 Richardson St, Suite 5  
West Perth WA 6005  
Tel: +61 8 9476 9000

1900 St James Place, Suite 425  
Houston Tx 77056  
USA  
Tel: +1 713 275 9800

E: [admin@targetenergy.com.au](mailto:admin@targetenergy.com.au)  
W: [www.targetenergy.com.au](http://www.targetenergy.com.au)  
[www.targetenergyusa.com](http://www.targetenergyusa.com)

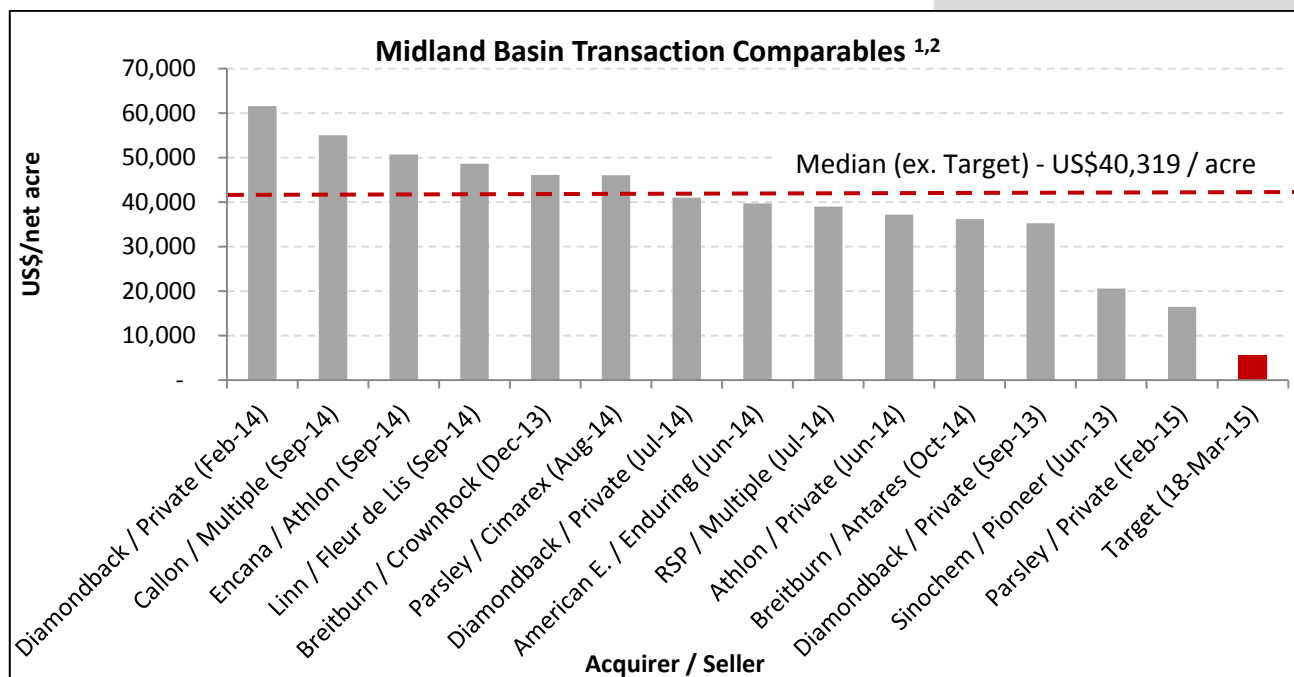
#### Media Inquiries:

##### Australia

Ross Dinsdale  
Business Development Manager (Perth)  
+61 8 9476 9000 office  
+61 429 702 970 mobile  
[ross.dinsdale@targetenergy.com.au](mailto:ross.dinsdale@targetenergy.com.au)

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1. Data sourced from SEC filings
2. Target's EV/net acre metric is on a trading basis and does not include a premium for control, as some of the other transaction comparables may do. Target's metric is calculated as at 18/03/15 using closing prices and AUD:USD at 0.75.

These transaction based metrics indicate there is considerable upside Target could realise in a divestment of its interest in the Fairway Project. However and as noted, the timing of such a divestment should coincide with a recovery in oil prices to optimise the value received.

Target's Fairway valuation can also be assessed by identifying the components of the company's intrinsic value, which can be categorised as follows;

- The value of identified oil and gas reserves and production.
- The value of additional oil and gas not included in the current assessment.
- The value of the horizontal potential of the Company's acreage.

### Value of Identified Reserves and Production

As reported in the Company's Half Year Report - 31 December 2014, a value of \$22.7m is carried in respect of Oil & Gas Properties of which \$19.6m (US\$16m) relates to Fairway. This number is after adjustments for amortisation and impairment. Calculations were based upon PV10 discounted cash flows of proven reserves<sup>3</sup>.



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### Value of additional Oil and Gas

This refers to the value in Target's existing oil and gas wells which is not included in the current assessment but which can be unlocked pursuant to a workover/re-completion program i.e. without the need for drilling new wells. While most of the wells at Fairway have potential for additional future production from zones above the current producing intervals, up to eight wells have recompletion or work-over potential that could address oil and gas behind pipe that is not presently included in reserves assessments.

Target's internal estimates suggest that up to six of these wells have potential for workovers via fracing of the Upper & Lower Wolfcamp and/or Spraberry zone. These workovers are estimated to each potentially increase production by 10-20 barrels of oil per day (BOPD) with an NPV10 of US\$189,000 to US\$513,000, net to Target's interest after royalties, depending on whether current oil prices or the 2014 average oil price of US\$94.99 are used.

Target's internal estimates suggest that a further two wells have potential for workovers via fracing of the Devonian/Mississippian to Wolfcamp interval. These workovers are estimated to each potentially increase production by 20-80 BOPD with an NPV10 of US\$462,000 to US\$1,213,000, net to Target's interest after royalties, depending on whether current oil prices or the 2014 average oil price of US\$94.99 are used.

### Value of the Horizontal Acreage

The horizontal potential refers to the inherent value in the leases associated with future horizontal drilling in the Wolfcamp section, including the Cline Shale that is ubiquitous in the Fairway area. This was previously assessed in an independent technical report as part of an Independent Expert's Report prepared for a Target general meeting held in 2012.

The 2012 independent technical report valued the Cline shale potential at US\$4,000 - US\$6,000 per acre, with a discount applied to US\$2,000 per acre to reflect the risk associated with the lack of drilling that had taken place on the Fairway leases. At the time of the preparation of the 2012 independent technical report the WTI Spot oil price was approximately US\$88 per barrel.

Since the 2012 independent technical report was issued there has been further drilling in the region to address the Cline and Wolfcamp potential. Also since 2012, a new horizontal play in the Canyon Formation has been developed by Laredo Petroleum, who announced a 30 day average IP of 1,151 BOEPD last month in a horizontal Canyon well south of our leases<sup>4</sup>. The Fairway leases sit within the area defined by Laredo as being prospective for the Canyon play.

Therefore the Company believes the 2012 value assessment on the Cline shale potential remains justifiable. Target has 2,479 net acres at Fairway.



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### Summary

Managing Director Laurence Roe commented, "Target has consolidated a significant landholding in the Permian Basin. We believe this asset retains a value considerably in excess of the Company's current market capitalisation. In the near term, Target intends to review its options to optimise the value of its existing wells where it can add to production at a minimal cost and while we will review any offers in the interim that we deem suitable, our plans to divest Fairway will otherwise be expedited at such time as there is an appropriate recovery in oil prices."

ENDS

For and on behalf of TARGET ENERGY LIMITED

A handwritten signature in purple ink, appearing to read "Laurence Roe".

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

1. Reserves as at 30 June 2014. A full list of disclosures and risks related to reserves is detailed in ASX release on 5 September 2014.
2. NSAI SEC WTI Spot. Pricing based on SEC regulations 12-month unweighted average of first-day-of-the-month prices.
3. Pricing assumptions for the purposes of the discounted cash flows are as defined by SEC regulations, being the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period. For 31 December 2014 the average price used was \$94.99.
4. Laredo Petroleum February 2015 Conference Call Presentation.

### Disclaimer

Certain statements in this announcement contain 'forward-looking statements' including, without limitation to: expectations, beliefs, plans and objectives regarding production and exploration activities. Any matters that are not historical facts are forward-looking and accordingly, involve estimates, assumptions, risks and uncertainties and other factors discussed in our most recently lodged Annual Report, our website, <http://www.targetenergy.com.au>, and in our other public documents and press releases. These forward-looking statements are based on Target Energy Limited's ("Target") current expectations, estimates and projections about the company, its industry, its management's beliefs and certain assumptions made by management. No assurance can be given that such expectations, estimates or projections will prove to have been correct. A number of factors could cause actual results to differ materially from the projections, anticipated results or other expectations expressed in this presentation, including, Target's ability to meet its production targets, successfully manage its capital expenditures and to complete, test and produce the wells and prospects identified in this presentation; to successfully plan, secure necessary government approvals, finance and to achieve its production and budget expectations on its projects. Whenever possible, these 'forward-looking statements' are identified by words such as "expects," "believes," "anticipates," "projects," and similar phrases. Because such statements involve risks and uncertainties, Target's actual results and performance may differ materially from the results expressed or implied by such forward-looking statements. Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. Unless legally required, we assume no duty to update these statements as of any future date. However, you should review carefully reports and documents that Target lodges periodically with the Australian Securities Exchange. Target reports a thermal equivalent when combining gas and oil production, where 1BOE = 6 mcf.

*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.*