Target Energy Limited (TEX)

Stacked-pay pays out

Overview

We initiate coverage with a Speculative Buy recommendation and a risk-adjusted DCF target price of $0.13/share. Target is a junior oil and gas company offering exposure to growing oil production in the Permian Basin in Texas. With up to 110 drilling locations and stacked formations offering multiple chances for payout production should grow from ~140 boepd in the December 2013 quarter to 800 boepd within two years. Production in March is already above 300 boepd. Target's business model of non-operated interests with US partners has delivered low cost participation in niche projects, with good exploration success. Target is currently trading at $US6,100/acre, below recent industry transactions at $US10,000+/acre.

Key investment points

- **Stacked pay:** Target's "Fairway Project" acreage is prospective for oil from the Wolfberry, Cline shale and Fusselman formations, with up to 110 drilling locations on 40 acre spacing. The Wolfberry and Fusselman can be developed by low cost vertical wells, providing 7.3 mmboe of net resource.
- **Phased development**: The development strategy is to penetrate all three targets with each well. The conventional Fusselman formation, which is expected to be productive in 25% of the locations, is developed first due to its high deliverability over a five to six year life, with the unconventional Wolfberry developed after the Fusselman is depleted. In wells in which the Fusselman is unproductive the Wolfberry is developed immediately.
- **Upside potential**: The Cline shale, currently being targeted by others in adjacent acreage, provides future upside from horizontal wells, as does potential down-spacing to 20 acres for the Wolfberry formation, as well as the opportunity to re-stimulate Wolfberry wells during their ~20 year life.
- **Capable partner**: Target's partner, Trilogy Operating, is a small prospect generation and operating group based in Midland, Texas. Trilogy, formed in 1985, has significant experience in the Permian Basin. Trilogy identifies prospects, farming out for a free carry on the first well, and then participates in subsequent development at typically around 25% retained interest.
- **Catalysts**: Results from nine Fairway wells, commencing March 2014; production growth, outperformance from individual wells.
- **Risks**: Exploration outcomes, oil production profile, commodity prices, weather disruptions, ongoing funding, project concentration and lack of control over the pace of development.

Key Financials

Year-end June (A$)	FY13A	FY14E	FY15E	FY16E	FY17E
USD/AUD (average)	1.03	0.90	0.88	0.83	0.80
Brent (US$/bbl)	109	109	102	97	97
Production (mmboe)	0.1	0.1	0.3	0.5	0.7
Revenue ($m)	2	10	27	49	73
EBITDA ($m)	-0	6	21	39	59
Cash costs ($/boe)	42	29	22	20	19
Normalized NPAT ($m)	-2	4	12	21	31
Reported NPAT ($m)	-3	4	12	21	31
Normalized ROE (%)	-10	19	31	31	27
Cash ($m)	2	4	4	11	29
Debt ($m)	0	6	6	6	0
Capex ($m)	6	10	19	29	30
PER	-11.1	5.7	2.3	1.3	0.9
EV/EBITDA	-96.2	4.6	1.4	0.6	-0.0

Source: Iress, Company, Ord Minnett estimates

Last price $0.057

Target price $0.13

Recommendation Speculative Buy

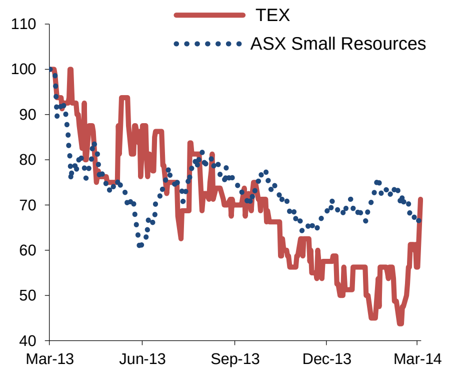
Risk Assessment Higher

Oil and Gas

John Young
Senior Oil & Gas Analyst
jyoung@ords.com.au
+61 3 9608 4184

Target Energy Limited	
ASX Code	TEX
52 week range	$0.04 - $0.08
Market Cap (A$m)	26
Shares Outstanding (m)	454
Avg Daily Turnover (#)	103,287
ASX All Ordinaries	5,376.8
Net Debt/(Cash) FY13A (A$m)	1.5

Relative price performance



Source: Iress

Consensus target price

	Cons.	OML
Target price $/sh	$0.09	$0.13

Contents

Executive summary

Valuation

Valuation: We estimate a base case risked DCF value of $0.13/share (EV of $76m) and an unrisked value of $0.23/share (EV of $134m) as of 31st December 2013, equivalent to a base case enterprise value of $US26,000 per acre (based on 2671 net Fairway acres – Target's total over all projects is 3,017 net acres). Target's EV (at 31st March) of $20m (@$0.057/share) is equivalent to $US6,900/ Fairway acre or $US6,100/total net acre.

Peer comparison: ASX-listed companies with North American unconventional exposure (not all necessarily in the Permian Basin) currently trade on EV/acreage multiples of approximately $US6,000-7,000/acre, although examples range from less than zero (i.e. market capitalizations of less than cash backing) to Aurora Oil & Gas (AUT.AX, Hold) at ~$US64,000/acre (and over $US100,000/Eagle Ford shale acre).

Transaction metrics: Target's acreage is in the heart of the Midland Basin section of the greater Permian Basin. US transaction data indicates that the Midland Basin acreage is priced towards the higher end of all US unconventional plays.

Recent Permian Basin transactions for partly developed acreage have ranged from $US11,500/acre ($12,900/acre) to $US84,000/acre ($94,000/acre), with core areas of the Midland Basin commonly in the $US10,000-20,000+/acre range.

- December 2012, Sandridge Energy (SD) sale to Sheridan Production; 225,000 acres for $US2.6b, equivalent to $US11,500/acre, $US342k/drilling location, $US4.83/boe resource and $US106k/boepd production.
- March 2013, Rosetta Resources (ROSE) purchase from Comstock Resources (CRK); 53,306 acres for $US768m, equivalent to $US14,400/acre, $US960k/drilling location, $US5.30/boe resource and $US232k/boepd.
- September 2013 Linn Energy (LINE) acquired 6,250 net acres for $US525m, equivalent to $US84,000/acre, $US1,240k/drilling location, $US17.50/boe resource and $US109k/boepd.

Our base case valuation of Target is equivalent to $US1,140/net drilling location (66 well site), $US9.60/boe net resource (7.3 mmboe) and $US91/boepd on FY15 expected net production (770 boepd).

Base case: Our base case assumes development of expected Fusselman and Wolfberry well locations assuming mid-case "type curves", delivering 7.3 mmboe net to Target, risked at 60%. Our valuation assumes a long run Brent oil price of $US90/bbl real (WTI oil price of $US85/bbl), Henry Hub gas price of $US4.70/mmBtu, USD/AUD exchange rate of 0.80 and 12% nominal discount rate.

Our $/acre multiple for Target is higher than some recent transactions, reflecting a higher level of developed drilling locations in our base case than the large acreage positions of other transactions.

Table 1: Transaction metrics

Metric	$US/acre	$US/drilling location	$US/boe resource	k$US/boepd
Sandridge Energy	11,500	342	4.83	106
Rosetta Resources	14,400	960	5.30	232
Linn Energy	84,000	1,240	17.50	109
Midland core areas	10,000-20,000+	-	-	-
Target base case	26,000	1,060	9.60	91

Source: Ord Minnett analysis. Target Energy metrics based on Fairway project only. 0.92 $US/$A spot forex rate.

Valuation relativity: Our base case valuation is in the upper half of recent US transactions. It reflects our assessment of the risked value of an advanced project, not undeveloped acreage, given the expected drilling over the next two to three years. By this time over one third of the field should have been developed, and the bulk of the resource should have achieved proven reserves status.

Our base case valuation is well above current trading multiples for most ASX-listed companies with North American unconventional exposure. Whilst one swallow doesn't make a summer, the recent (7th February 2014) bid for Aurora by Baytex Energy Corp (BTE.TSE) of Canada at a 46% premium to Aurora's one-month VWAP suggests that ASX-listed companies may be under-valued by the Australian market.

In addition, the bulk of these companies have a large portion of undeveloped acreage, and some of this acreage is in unconventional plays outside the Permian Basin, which attract lower valuations.

Our base case valuation is at a significant discount to the unrisked DCF value and does not include the impact from downspacing or re-stimulating Wolfberry wells, both of which have the potential to increase the value of the Fairway project.

Single project concentration: Target's project portfolio is skewed significantly to the Fairway project, with the present value of its other three projects negligible in comparison. Underperformance or failure of the Fusselman play across the acreage would significantly impact valuation. Whilst the Fairway project can deliver production growth for three to five years, further project diversification will be sensible at an appropriate time.

Price catalysts: Near term catalysts results from nine Fairway wells in 2014, commencing in March; and production growth, which we estimate should increase from 170 boepd in FY13 to 350 boepd in FY14, 800 boepd in FY15 and 2000 boepd by FY17 at the current project interest of 60%

Funding: Target raised $6 via convertible notes in February CY14 to execute its planned CY14 work program of nine Permian Basin wells. Further funding may come from partial farm-out or reserves based lending. Our modelling indicates Target should be self-funding from CY15, based on an expected drilling program of ~15 Fairway project wells per year.

Asset monetization / exit strategy: We expect Target will seek to divest its Permian Basin project after further de-risking (say from CY15) to a larger company with a lower cost of capital and redeploy the funds into one or two earlier stage Gulf Coast projects. However, we estimate Target has the capacity to continue to develop its Permian Basin project if divestment does not proceed.

Table 2: Valuation range

Case	$/share	Comments
Current market	0.057	At 31st March 2014
Base case	0.13	Mid-case type curves, 40 acre spacing, 60% risk factor
Unrisked	0.23	Mid-case type curves, 40 acre spacing, 100% risk factor
Low EUR case	0.07	Low case type curves, 40 acre spacing, 60% risk factor
High EUR case	0.23	High case type curves, 40 acre spacing, 60% risk factor
20 acre spacing	0.22	Mid-case type curves, 20 acre spacing, 60% risk factor

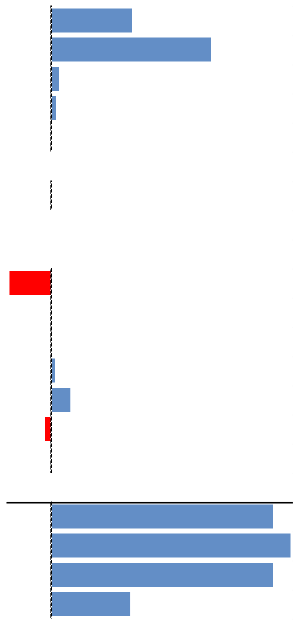
Source: Ord Minnett analysis.

N.B. A "type curve" demonstrates the expected production profile over time for a given type of well.

Table 3: Valuation summary

NPV @ 12.0% WACC Valuation as of 31 Dec 2013	Net volume mmboe	Unit value $US/boe	Risk factor %	Risked value $A(m)	Risked value $A/sh	Unrisked value $A/sh
Projects (DCF model valuation)	**7.6**			**85**	**0.15**	**0.24**
Fairway - Fusselman oil	1.3	29.05	60	27	0.05	0.08
Fairway - Wolfberry tight oil	6.0	12.30	60	54	0.09	0.16
East Chalkely - oil	0.2	10.05	90	2	0.00	0.00
Section 28 - oil/gas	0.0	20.90	100	1	0.00	0.00
Merta - gas	0.0	4.15	100	0	0.00	0.00
Exploration / Appraisal	**-**			**-**	**-**	**-**
Other (corporate, cash, debt, etc)				**-9**	**-0.02**	**-0.02**
Corporate costs				-15	-0.03	-0.03
Hedging & Investments				-	-	-
Franking credits (@ 0 %)				-	-	-
Cash				1	0.00	0.00
Additional Equity				6	0.01	0.01
Debt				-2	-0.00	-0.00
Minorities / Other				-	-	-
Equity Valuation (diluted)	as of Dec 2013			**76**	**0.13**	**0.23**
Equity Valuation @ spot prices	@ $US102/bbl WTI & 0.925 fx			**82**	**0.14**	
Target price	as of Dec 2014			**76**	**0.13**	
Mkt Cap @ current share price	(and undiluted share count)			**21**	**0.046**	
Total shareholder return (%)					**182.6**	
Number of shares (undiluted)	000,000			453.7		
Number of shares (diluted)	000,000			582.3		

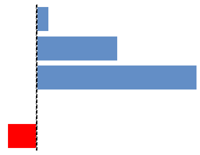
Risked value
$A/sh



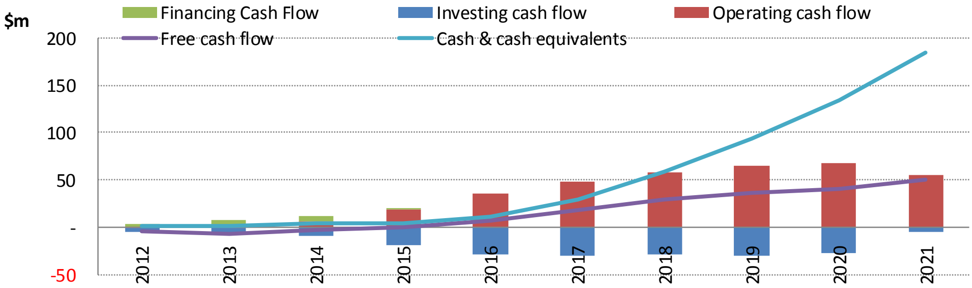
Oil price and forex sensitivity: $A/sh

$US/$A forex	Real WTI oil price, $US/bbl 50	75	100	125	150	175
fx=1.20	0.00	0.05	0.10	0.14	0.19	0.23
fx=1.10	0.01	0.06	0.11	0.16	0.21	0.26
fx=1.00	0.01	0.07	0.13	0.18	0.23	0.29
fx=0.90	0.02	0.08	0.14	0.20	0.26	0.33
fx=0.80	0.03	0.10	0.17	0.24	0.30	0.37
fx=0.70	0.04	0.12	0.20	0.28	0.35	0.43

Valuation analysis:



Cash flow



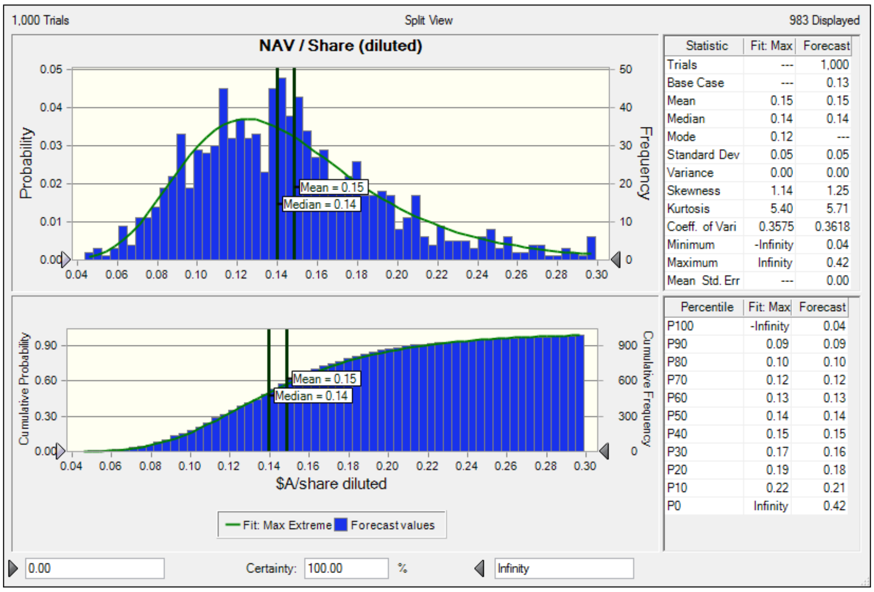
Source: Ord Minnett analysis

Simulation and sensitivity analysis

Monte Carlo simulation calculates the distribution of possible share price outcomes given the uncertainty in the underlying assumptions. Our simulation analysis estimates a mean valuation of $0.15/share, marginally above our base case valuation of $0.13/share. There is an 80% probability the valuation will exceed ~$0.10/share and a 20% probability of exceeding ~$0.18/share. The current share price is $0.057/share.

The Tornado chart shows the sensitivity of the valuation to changes in individual variables, ranking the variables from highest to lowest impact. Our analysis indicates that the size of Fairway reserves and oil prices have the greatest impact.

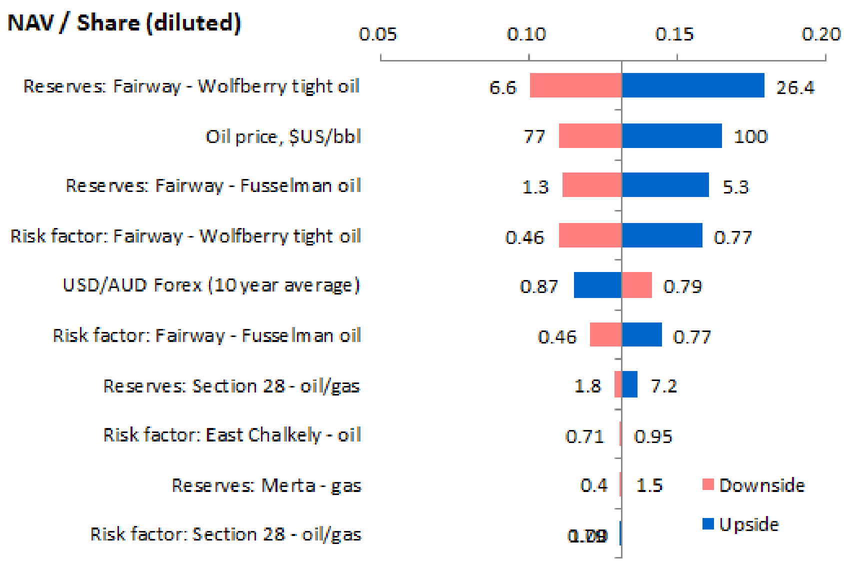
Figure 1: Monte Carlo simulation



Source: Ord Minnett analysis.

- The Monte Carlo simulation method selects values for each of the input assumptions from their probability distributions, calculates the resulting share price, and repeats the process many (in this case 1,000) times.

Figure 2: Tornado chart



Source: Ord Minnett analysis.

- The bars correspond to the low case (red bar) and high case (blue bar) for each variable.
- Due to oil industry convention probabilities are reported as being above a given level. Hence the low case corresponds to a 90% probability of the value being above the low case level and the high case corresponds to a 10% probability of being above the high case level.
- The values shown at the end of each bar are the values of the input variables at the low and high cases.

SWOT analysis

Strengths

- Exposure to well-located Midland Basin acreage in the larger Permian Basin.
- Capable partner (Trilogy Operating).
- Seven Fairway project wells drilled.
- Large Fairway project drilling inventory (up to 110 Wolfberry drilling locations on 40 acre spacing and 55 Fusselman locations on 80 acre spacing).
- Active 2014 program (9 Fairway wells).
- Stacked pay: drill through Wolfberry and Cline shale targets on way to Fusselman (provides formation quality information at little additional cost).
- Low drilling costs ($US1.8m/well Fusselman, $US2.1m/well Wolfberry).
- High margin liquids focus (Fairway project 80% oil).

Weaknesses

- Micro-cap (difficult to attract institutional investors).
- Non-operator (unable to control pace of project development).
- Single project concentration.
- Non-contiguous acreage of limited interest to larger acquirers (although could be attractive if “bolt-on” due to adjacency).
- Deal participation dependent upon JV partners.

Opportunities

- Up to 110 well locations on 40 acre spacing.
- Cline shale potential.
- Down-spacing Wolfberry development to 20 acre spacing (-> 220 drilling locations).
- Refracturing Wolfberry wells during productive life to increase deliverability and EUR.

Threats

- Well performance (IPs, EURs, water production).
- Repetition of play across acreage.

Risks

Risk include, but are not limited to, the following factors.

- Exploration outcomes (well IP rates / type curve performance / EUR).
- Weather disruptions to work programs.
- Ongoing access to funding, depending upon drilling results and pace of activity.
- Commodity prices (WTI, LLS, and Henry Hub).
- Access to oil field services.

Company description

Target's portfolio consists of four projects:

- Fairway oil project, in the Permian Basin, in west Texas,
- Merta gas field, near Houston, Texas
- East Chalkley oil field, Louisiana, and
- Section 28 gas & liquids field, Louisiana.

The largest resource potential and value resides in the Fairway project, described in more detail on the following page.

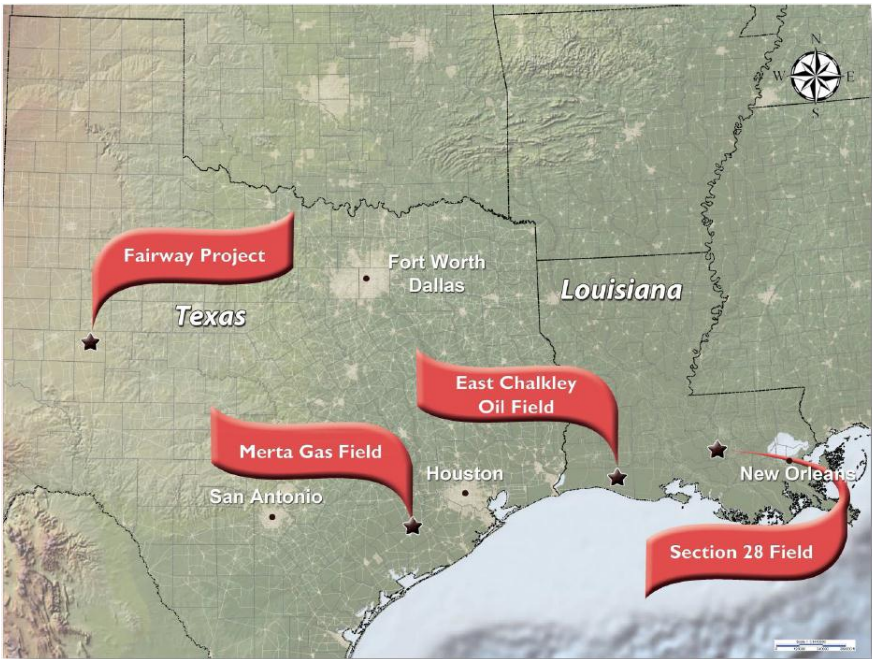
The Merta gas field (Target 25%) is a single well gas project located in Wharton County, producing 145 kscfd gross gas, with no further development planned.

The Section 28 field (Target 25%) is a two well field producing 500 kscfd gas and 22 bopd (gross), with bypassed payzones which could be produced for modest capital investment.

The East Chalkley oil field (Target 35%) consists of 714 gross acres (250 net acres), operated by Magnum Hunter Resources, with 53 kboe of 2P reserves and 941 kboe of 3P + 3C reserves and resources. There are currently two producing wells, with the potential to increase this and to introduce water-flooding to maximize recovery.

Tenement information is summarized in Appendix 1 and key features of each project are described in the following pages.

Figure 3: Target Energy key project areas



Source: Target Energy Limited, 2013 AGM presentation, 14th November 2013

Fairway project

Target has a 45-60% interest [(1)] in 4,528 gross acres (2,671 net acres) in the Permian Basin in Howard and Glasscock Counties, near Midland in Texas, operated by partner Trilogy Operating, Inc.

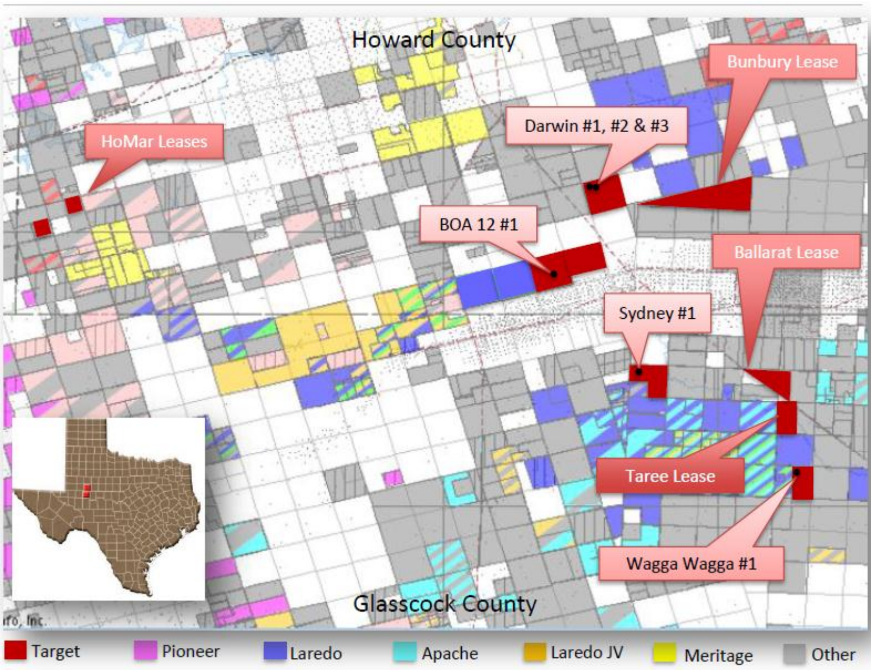
The Fairway project is focused on oil production from the Fusselman formation at 9,500-10,000 ft, using vertical, acid-stimulated, wells and the Wolfberry from 5,000-9,500 ft, using fracture stimulation of the same vertical wells. The Lower Cline Shale at 9,000-9,500 ft could be developed in future using horizontal wells.

The Fusselman is a conventional naturally fractured carbonate reservoir characterized by strong initial production rates (~160 boepd), good estimated ultimate recoveries (~240 kboe) and a 5-6 year producing life for each well. Fusselman wells are relatively cheap at $US1.8m capex. Fracture stimulation of the Wolfberry adds ~$US0.3m (total of $US2.1m). Wolfberry wells have lower IPs (~115 boepd) and lower EURs (~150 kboe), but a longer producing life of 20+ years. Type curves are shown in Appendix 2.

Target currently has 0.5 mmboe of 1P reserves and 1.0 mmboe 2P reserves. Seven wells have been drilled, out of a total of up to 110 well locations on 40 acre spacing. Nine wells and additional leasing are planned during FY14, which is expected to increase production by 2-3 times over 2013.

Six of the seven wells have currently been completed for production, with completion of the seventh expected shortly. A majority of the wells have experienced significant early water production which has hindered oil production rates.

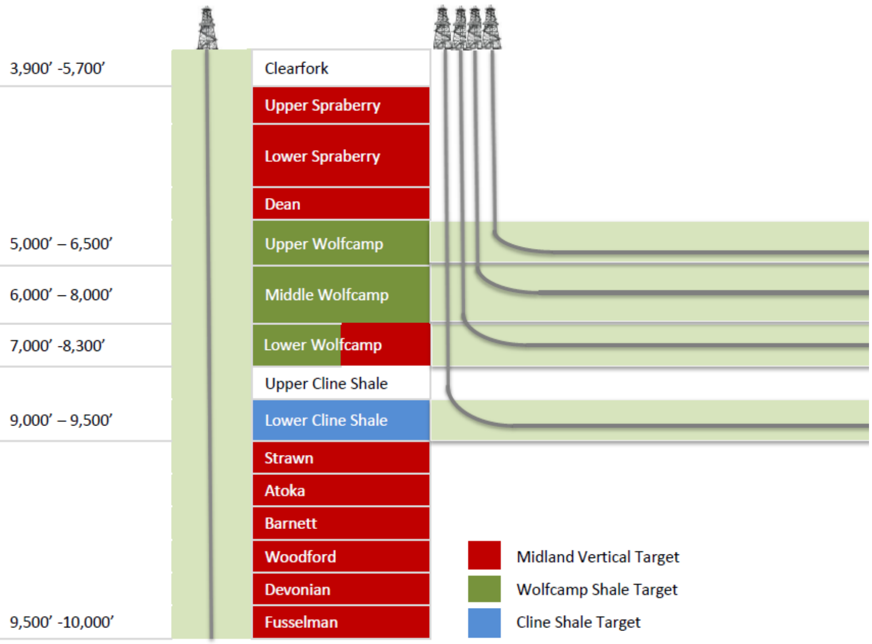
Figure 4: Fairway project acreage



Source: Target Energy Limited, AGM presentation, 14th November 2013, p 13

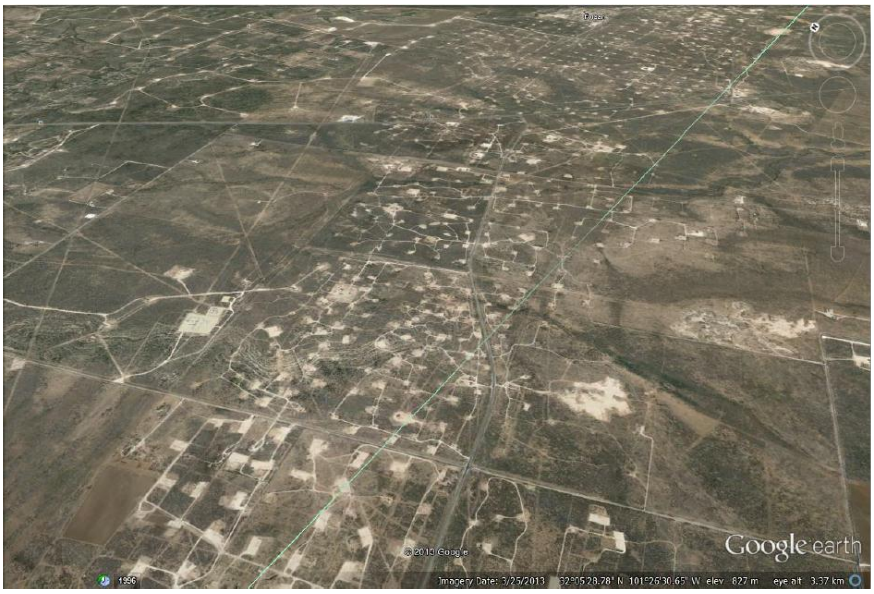
[(1)] 45% in the Wagga Wagga lease area, 60% in all other lease areas.

Figure 5: Permian Basin targets



Source: Target Energy Limited, AGM presentation, 14th November 2013, p 10

Figure 6: Aerial View of the Howard Glasscock Field, adjacent to Target's Permian Basin leases



Source: Target Energy Limited, AGM presentation, 14th November 2013, p 6

Table 4: Fairway project drilling results

Well	Comments
BOA 12#1	○ Drilled late 2011. ○ Wolfberry fracture stimulated in 11 zones over 1,100m. ○ Initial production (IP) 58 bopd Wolfberry, 20 bopd Devonian, 10 bopd Fusselman ○ Problems with water. Currently producing 25 bopd and 250 bwpd.
Darwin #1	○ Drilled August 2012. ~3 km NE of BOA wells. ○ Completed in Fusselman. ○ IP 110 bopd with 150 kscfd gas.
Darwin #2	○ Re-entry of borehole near Darwin #1. TD 3059 m 24th Dec 2012. ○ Completed in Devonian / Fusselman. ○ IP 60 bopd with 100 kscfd gas and 45 bwpd.
Darwin #3	○ Drilled July 2013, ~800 m W of Darwin #1 ○ Completed in Wolfberry / Fusselman. Fracture stimulated October 2013. ○ IP 85 bopd with 80 kscfd gas and 206 bwpd.
Sydney #1	○ Drilled 1st quarter CY13. 10 km SSE of Darwin wells. TD 3101 m. ○ Fusselman, Wolfberry and Ellenburger formations. ○ IP 130 bopd, 185 kscfd gas and no water from Fusselman.
Sydney #2	○ Drilled Dec 2013. 800 m east of Sydney #1. TD 3040 m. ○ Wolfberry and Fusselman. ○ Significant water production initially; successful polymer gel treatment late Jan 2014. ○ Production exceeded 520 boepd in mid-March (415 bopd plus 640 mscf/d)
Wagga Wagga #1	○ Drilled October 2013. 8.5 km SE of Sydney #1. TD 3057 m. ○ Ellenburger, Fusselman and Wolfberry. ○ Completion planned after Sydney #2 workover. 11 stages over a 700 m interval.
CY14	○ Nine wells planned, commencing in March. The first of these is BOA 12 #3
BOA 12 #3	○ Drilled March 2014. TD 3,101 m. ○ Encountered Fusselman Carbonate. Will be completed as an oil producer.

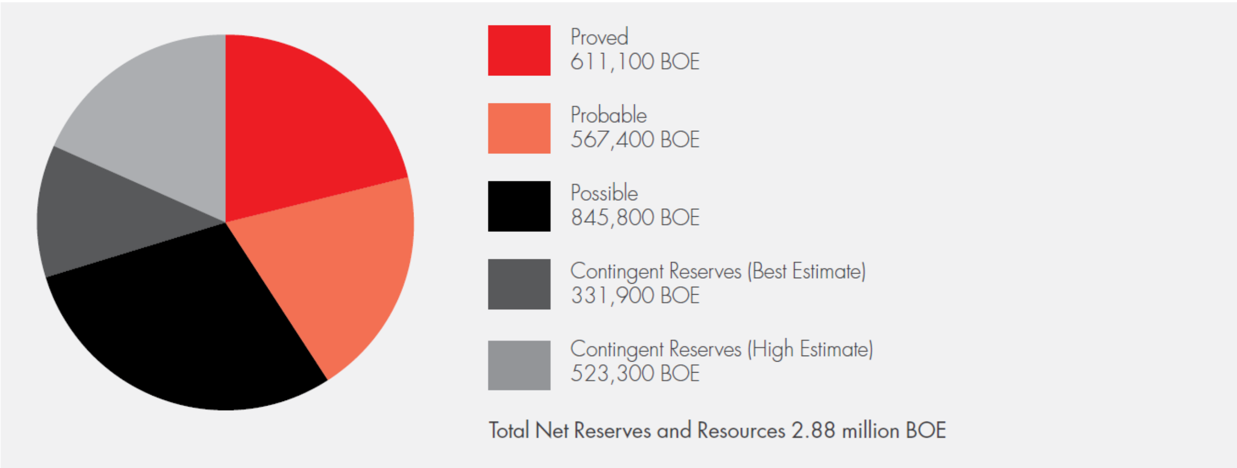
Source: company data and Ord Minnett estimates

Reserves and resources

Figure 7: Reserves and resources, effective June 2013

Category	Net Reserves & Resources		BO equiv.
	Oil (Mbbls)	Gas (MMCF)	(Mboe)
Proved Developed Producing (PDP)	109.1	200.6	142.5
Proved Developed Not Producing (PDNP)	36.4	85.7	50.7
Proved Undeveloped (PUD)	331.6	517.6	417.9
Total Proved Reserves (1P)	477.1	803.9	611.1
Probable	455.7	670.3	567.4
Total Proved & Probable Reserves (2P)	932.8	1,474.2	1,178.5
Possible	683.9	970.9	845.8
Total Proved, Probable & Possible Reserves (3P)	1,616.8	2,445.1	2,024.3
Low Estimate Contingent Resources	-	-	-
Best Estimate Contingent Resources	331.9	-	331.9
High Estimate Contingent Resources	523.3	-	523.3
Total Contingent Resources (3C)	855.2	-	855.2
Total Reserves & Resources	2,472.0	2,445.1	2,879.5

Table 2: Target Energy total net Reserves and Resources effective 30/6/2013.



Source: Target Energy Limited, 2013 Annual Report, p 15.

Work program

Target's 2014 work program is comprised primarily of nine wells in the Fairway project, commencing in March.

Production has risen strongly in the March 2014 quarter, due primarily to better than expected performance from the Sydney #2 well.

Figure 8: Drilling activity and production

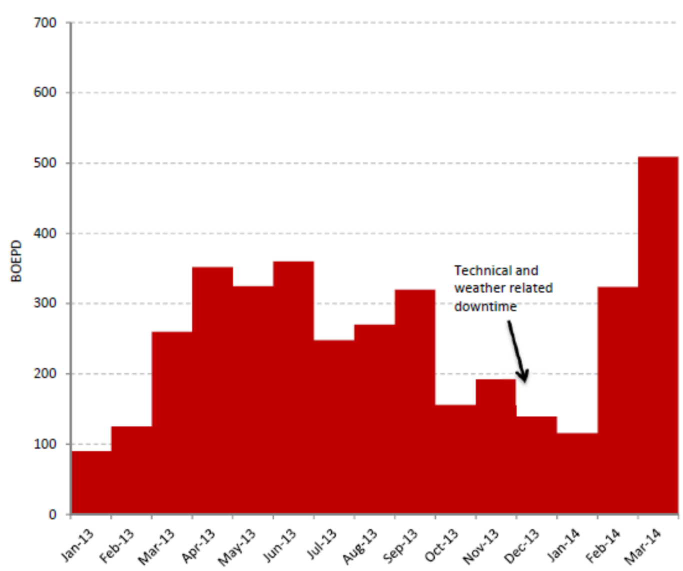
Fairway Project Activity 2013

	▪ Darwin #1 online
Feb 2013	▪ Darwin #2 online
March 2013	▪ Sydney #1 online
August 2013	▪ Darwin #3 online
October 2013	▪ Wagga Wagga #1 drilled
November 2013	▪ Sydney #2 drilled

Fairway Project Planned Activity 2014[1]

Q1 2014	✓ Wagga Wagga #1 completion underway ✓ Sydney #2 online ✓ BOA 12 #3 drilled ✓ BOA North #4 drilling imminent
Q2 2014	▪ Wagga Wagga #2 ▪ Ballarat #1
Q3 2014	▪ BOA North #5 ▪ Bunbury #1 ▪ Taree #1
Q4 2014	▪ Ballarat #2 ▪ Darwin #4

Fairway Project Gross Monthly Production Jan 13 – Mar 14 (BOEPD)



Notes:
1. Preliminary planning: number, location and order of proposed wells in 2014 program subject to change.

15

Source: Target Energy Limited, investor presentation, 31st March 2014

Valuation

Methodology

Risk adjusted DCF: We have valued Target using discounted cash flow analysis for projects for which sufficient data are available and have compared Target's market value on Enterprise Value (EV) to area and EV to resource metrics. We apply a risk factor for each project based on our assessment of the project's technical and commercial maturity. We compare resources based on an energy price equivalent basis, rather than an energy thermal equivalent basis, to better account for the value differences between liquids and gas prospects.

Simulation model: Our investment model incorporates probability distributions for key variables (such as reserves, commodity prices and exploration outcomes) and uses Monte Carlo simulation to quantify the range of share price outcomes.

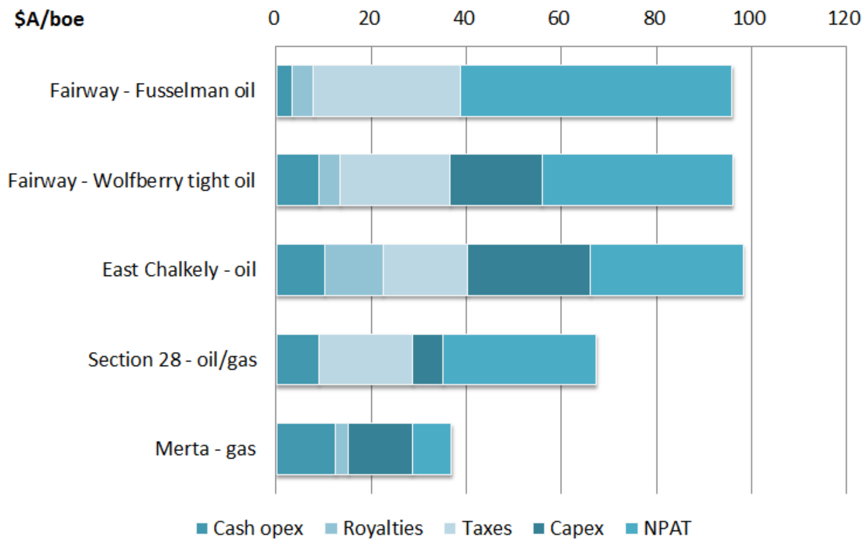
Long run commodity prices: Our valuation assumes a long run Brent oil price of $US90/bbl real (WTI oil price of $US85/bbl), Henry Hub gas price of $US4.70/mmBtu, USD/AUD exchange rate of 0.80 and 12% nominal discount rate.

Fiscal terms: Target's projects are subject to mineral royalties of 25-~30%, paid to the mineral owner; state severance taxes, ranging from 4.6% to 12.5% on oil and 7.5% or $US0.148/kscf for gas; and US federal tax of 34%.

Project assumptions

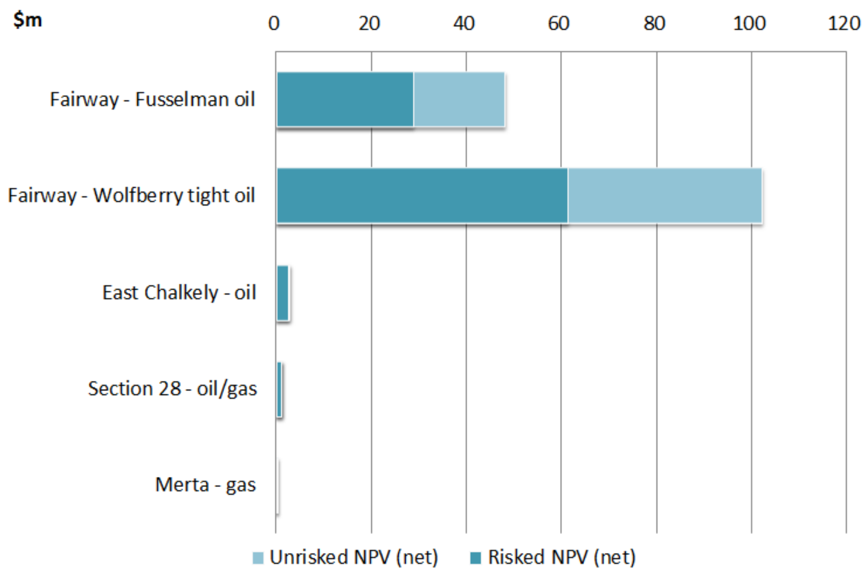
Our primary project assumptions are summarized in the charts below and the following table. Our valuation of all projects is based on DCF analysis.

Figure 8: Project cost structure



Source: Ord Minnett analysis. Life cycle costs, real $ basis.

Figure 9: Project NPV (net to company)



Source: Ord Minnett analysis. 12% nominal discount rate
N.B. Well capex attributed to Wolfberry wells

Table 5: Project assumptions

Project	Comments
Fairway Project Fusselman oil Texas	○ DCF model. ~60% working interest. ○ 55 well locations (4528 acres (gross) @ 80 acre spacing per Texas Railroad limit) ○ Vertical acid stimulated wells. Probability of success 25%. ○ IP ~200 boepd, 80% oil. EUR 240 kboe. 5-6 year life (on pump) before water breakthrough ○ Capex: $US1.8m/well (n.b. capex attributed to Wolfberry wells) ○ Opex: $US5k/well/month. ○ Royalty 25%, oil severance 4.6%, gas severance 7.5% ○ Pricing: WTI less $US2/bbl; HH plus $US4/kscf for 1400 Btu/scf gas
Fairway Project Wolfberry oil Texas	○ DCF model. ~60% working interest. ○ 110 well locations (4528 acres (gross) @ 40 acre spacing per Texas Railroad limit) ○ Vertical fracture stimulated wells. ○ IP ~110 boepd, 80% oil. EUR 150 kboe. ~20 year life ○ Capex: $US2.1m/well (n.b.$US1.8m drilling, $US0.3m stimulation) ○ Opex: $US5k/well/month. ○ Royalty 25%, oil severance 4.6%, gas severance 7.5% ○ Pricing: WTI less $US2/bbl; HH plus $US4/kscf for 1400 Btu/scf gas
East Chalkley oil Louisiana	○ DCF model. 35% working interest. ○ 2 producing wells. Potential for 4 further producing wells and 2 injectors over 2 years. ○ Deviated well. ○ EUR 200 kboe, 85% oil. 25% of production in 1st year. ○ Capex: $US3.0m/well ○ Opex: $US7.5k/well/month. ○ Royalty 30.5%, oil severance 12.5%, gas severance $US0.148/kscf ○ Pricing: LLS; HH
Section 28 oil/gas Louisiana	○ DCF model. 25% working interest. ○ No further wells. ○ 25% oil, 75% gas ○ Opex: $US1.5k/well/month. ○ Royalty 28%, oil severance 12.5%, gas severance $US0.148/kscf ○ Pricing: LLS, HH
Merta gas Texas	○ DCF model. 25% working interest. ○ No further wells. ○ 1% oil, 99% gas ○ Opex: $US1.3k/well/month. ○ Royalty 25.7%, oil severance 4.6%, gas severance 7.5% ○ Pricing: WTI, HH

Source: company data and Ord Minnett estimates

Comparative Valuation

Valuation metrics for ASX-listed companies with exposure to unconventional resources in North America are summarized in the Figures 10 to 15 below.

Our primary comparison is Enterprise Value to area and EV to reserves and resources metrics. We compare reserves and resources based on an energy price equivalent basis, rather than an energy thermal equivalent basis, to better account for the value differences between liquids and gas prospects. The underlying price assumptions and resulting oil price equivalent factors are summarized below.

Table 6: Resource price equivalent factors

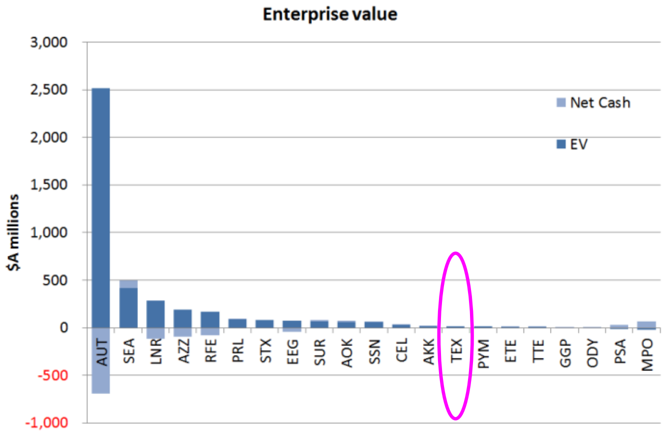
Commodity	units	Price as of 07-Feb-14	Price $A/boe	Price factor -	Source
USD/AUD forex	$US/$A	0.8940	-	-	Reserve Bank of Australia
Brent	$US/bbl	109.57	122.56	1.00	Bloomberg
WTI	$US/bbl	99.88	111.72	0.91	"
HH	$US/mmBtu	4.78	31.01	0.25	"
EC Australia	$US/mmBtu	6.00	38.93	0.32	Ord Minnett
WC Australia	$US/mmBtu	6.00	38.93	0.32	"
Europe	$US/mmBtu	11.60	75.26	0.61	World Bank - Dec '13
LNG	$US/mmBtu	16.40	106.40	0.87	World Bank - Dec '13
LPG	$US/t	970.00	95.18	0.78	Saudi Contract Price - Feb '14

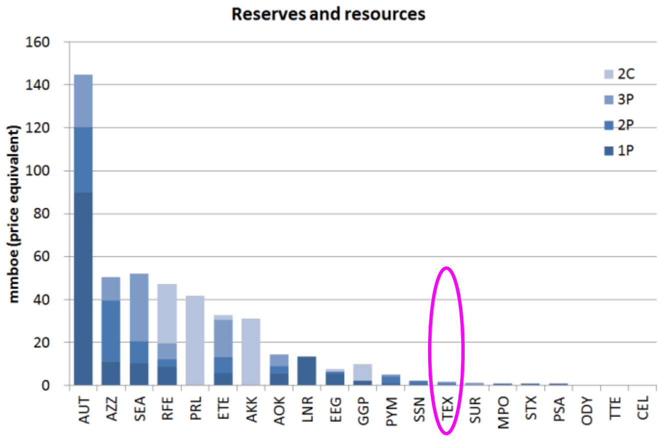
Source: Ord Minnett analysis.

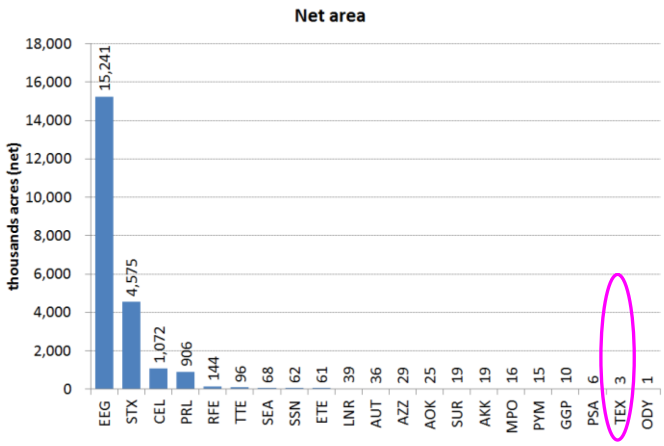
Enterprise value metrics

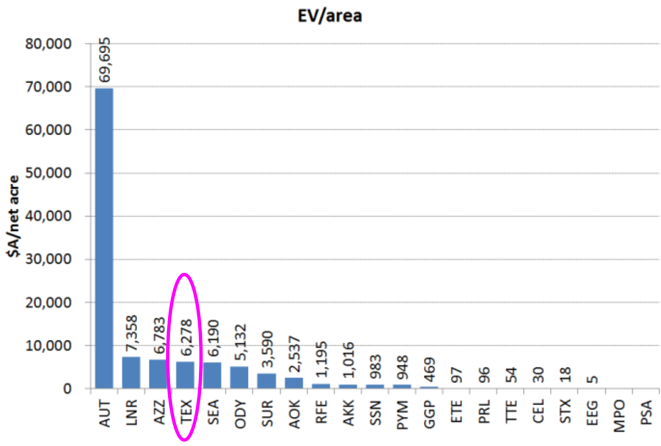
Relative to other ASX-listed companies with North American unconventional interests Target is small; with modest reserves and independently certified contingent resources. Target has a relatively small acreage position, although this is well placed and the acreage of some peers is skewed by large non-North American frontier acreage. Target trades on similar EV/area or EV/resources metrics to the bulk of the ASX-listed North American peer group. In terms of metrics, Aurora Oil & Gas (AUT.AX, Hold) is an outlier, trading at approximately ten times other ASX-listed companies.

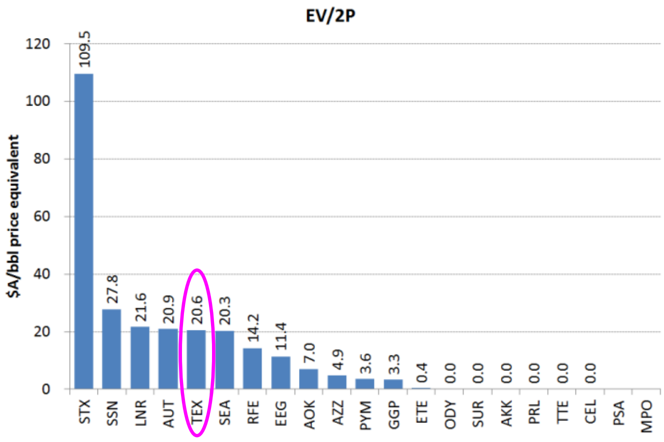
Figures 10-15: Metrics for selected junior oil and gas stocks

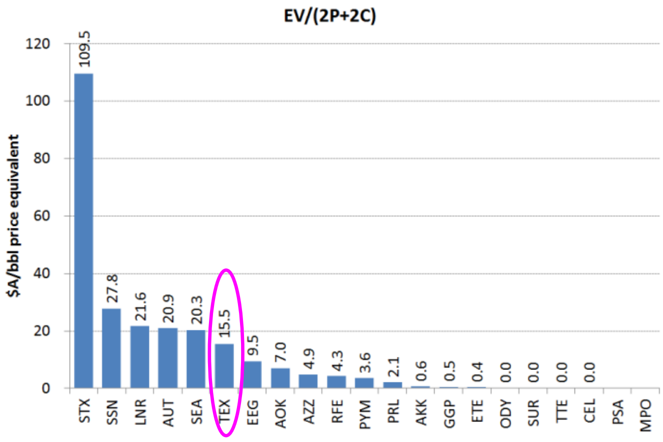








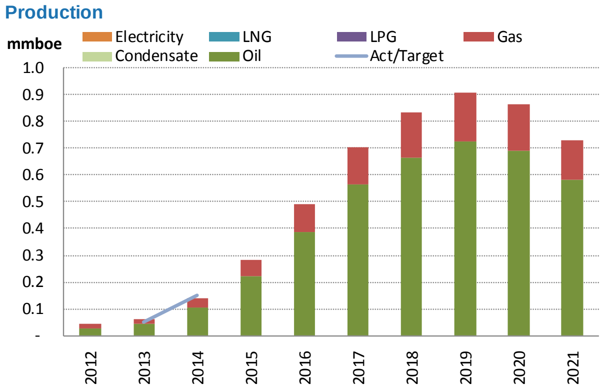


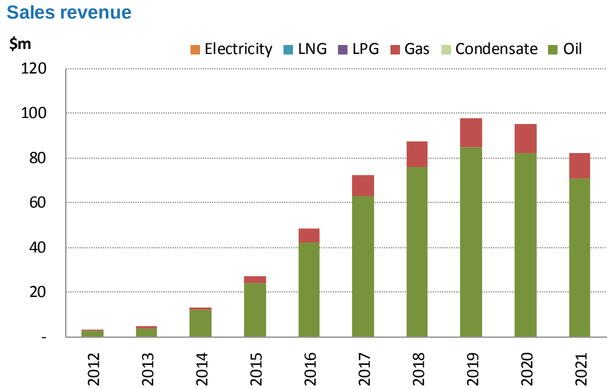


Source: IRESS and Ord Minnett analysis. Market capitalizations as of 7th February 2014.

Valuation model

Production and revenue





PRODUCTION	units	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
Production by project											
Fairway - Fusselman oil	mmboe	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.1	0.1
Fairway - Wolfberry tight oil	mmboe	0.0	0.0	0.1	0.2	0.3	0.5	0.6	0.7	0.7	0.6
East Chalkely - oil	mmboe	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Section 28 - oil/gas	mmboe	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Merta - gas	mmboe	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Project 5	mmboe	-	-	-	-	-	-	-	-	-	-
Project 6	mmboe	-	-	-	-	-	-	-	-	-	-
Project 7	mmboe	-	-	-	-	-	-	-	-	-	-
Project 8	mmboe	-	-	-	-	-	-	-	-	-	-
Project 9	mmboe	-	-	-	-	-	-	-	-	-	-
Total	mmboe	**0.0**	**0.1**	**0.1**	**0.3**	**0.5**	**0.7**	**0.8**	**0.9**	**0.9**	**0.7**
Total production	kboed	**0.12**	**0.17**	**0.38**	**0.77**	**1.34**	**1.93**	**2.28**	**2.49**	**2.36**	**2.00**
Production growth	%		42.1	125.1	104.3	72.9	44.5	18.1	9.1	-5.1	-15.3

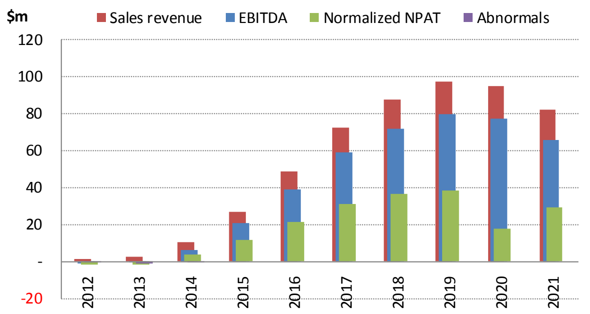
PRICES & REVENUE	nominal $	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
Price markers											
Forex (period average)	$US/$A	1.03	1.03	0.90	0.88	0.83	0.80	0.80	0.80	0.80	0.80
WTI	$US/bbl	95	92	102	96	91	91	93	95	97	100
Brent	$US/bbl	113	109	109	102	97	97	99	101	103	105
Nat Gas (Henry Hub)	$US/mmBtu	3.0	3.2	3.8	4.4	4.9	5.1	5.2	5.3	5.4	5.5
Nat Gas (NE Australia)	$A/GJ	3.9	4.3	5.7	7.1	7.3	7.3	7.5	7.6	7.8	7.9
LNG	$US/mmBtu	16.7	16.1	16.2	15.2	14.6	14.5	14.8	15.1	15.4	15.8
Qld average RRP	$A/MWh	9	12	16	16	20	20	21	21	22	22
Received prices											
Oil	$US/bbl	104	94	101	94	90	89	91	93	95	97
Condensate	$US/bbl	-	-	-	-	-	-	-	-	-	-
Gas	$US/mmBtu	3.5	5.3	7.0	8.2	9.0	9.4	9.7	10.0	10.2	10.5
LPG	$US/bbl	-	-	-	-	-	-	-	-	-	-
LNG	$US/t	-	-	-	-	-	-	-	-	-	-
Electricity	$US/MWh	-	-	-	-	-	-	-	-	-	-
Total		**68**	**76**	**87**	**84**	**82**	**82**	**84**	**86**	**88**	**90**
Revenue											
Oil	M$A	2	4	12	24	42	63	76	84	82	71
Condensate	M$A	-	-	-	-	-	-	-	-	-	-
Gas	M$A	0	1	1	3	6	10	12	13	13	11
LPG	M$A	-	-	-	-	-	-	-	-	-	-
LNG	M$A	-	-	-	-	-	-	-	-	-	-
Electricity	M$A	-	-	-	-	-	-	-	-	-	-
Total modelled	M$A	**3**	**5**	**13**	**27**	**49**	**72**	**88**	**98**	**95**	**82**
Total reported	M$A	1	2	-	-	-	-	-	-	-	-

Source: company data and Ord Minnett forecasts

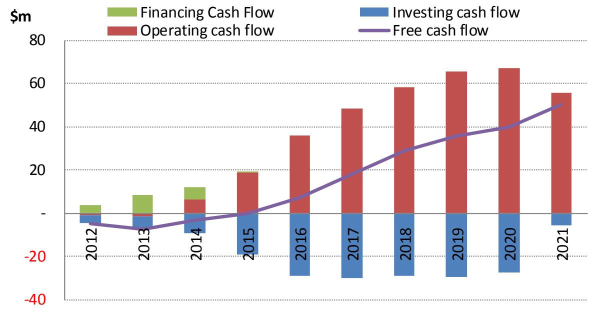
$A currency unless otherwise noted. Nominal $ basis. Year ending June.

Financial statements

Earnings



Cash flow



INCOME STATEMENT	M$A	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
Sales revenue		1	2	10	27	49	73	88	98	95	82
Other revenue		0	0	-	-	-	-	-	-	-	-
COGS & opex		-2	-3	-4	-6	-10	-13	-16	-18	-18	-16
Other		0	-0	0	-	-	-	-	-	-	-
EBITDA		**-1**	**-0**	**6**	**21**	**39**	**59**	**72**	**80**	**77**	**66**
Depreciation and Amortization		-1	-1	-1	-1	-4	-8	-13	-18	-46	-22
EBIT		**-2**	**-2**	**5**	**19**	**35**	**51**	**59**	**62**	**31**	**44**
Net Interest Expense		-0	-0	-1	-3	-4	-4	-3	-3	-2	2
EBT		**-2**	**-2**	**4**	**17**	**31**	**47**	**56**	**59**	**29**	**46**
Tax expense		-	-	-0	-5	-10	-16	-19	-20	-11	-17
Minorities / prefered dividends		-	-	-	-	-	-	-	-	-	-
Normalized NPAT		**-2**	**-2**	**4**	**12**	**21**	**31**	**37**	**38**	**18**	**29**
Abnormals		-1	-1	-0	-	-	-	-	-	-	-
Reported NPAT		**-2**	**-3**	**4**	**12**	**21**	**31**	**37**	**38**	**18**	**29**
Effective tax rate	%	*0.0*	*0.0*	*3.2*	*29.4*	*32.2*	*33.7*	*34.3*	*34.7*	*39.1*	*36.1*

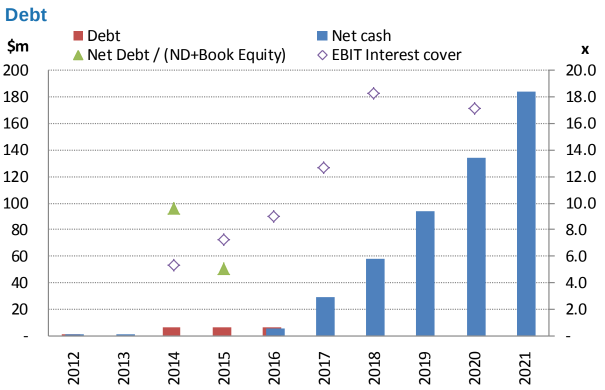
CASH FLOW STATEMENT	M$A	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
EBITDA		-1	-0	6	21	39	59	72	80	77	66
Other operating items (tax, etc)		0	-1	-0	-2	-3	-11	-14	-15	-10	-10
Operating cash flow		**-1**	**-1**	**6**	**19**	**36**	**48**	**58**	**65**	**67**	**56**
PPE capex		-0	-6	-3	-	-	-	-	-	-	-
Exploration capex		-4	-0	-0	-	-	-	-	-	-	-
Development capex		-	-	-6	-19	-29	-30	-29	-30	-27	-5
Other investing items		-	-	-	-	-	-	-	-	-	-0
Investing cash flow		**-4**	**-6**	**-10**	**-19**	**-29**	**-30**	**-29**	**-30**	**-27**	**-6**
Inc/(Dec) in Equity		4	8	-	1	-	-	-	-	-	-
Inc/(Dec) in Borrowings		-	-	6	-	-	-	-	-	-	-
Dividends paid		-	-	-	-	-	-	-	-	-	-
Other financing items		-0	0	-0	-0	-	-	-	-	-	-
Financing Cash Flow		**4**	**8**	**6**	**1**	**-**	**-**	**-**	**-**	**-**	**-**
Net Inc/(Dec) in Cash		**-1.1**	**0.9**	**2.3**	**0.2**	**7.3**	**18.1**	**29.1**	**35.8**	**39.8**	**50.2**
Free cash flow		**-4.8**	**-7.3**	**-3.4**	**-0.4**	**7.3**	**18.1**	**29.1**	**35.8**	**39.8**	**50.2**

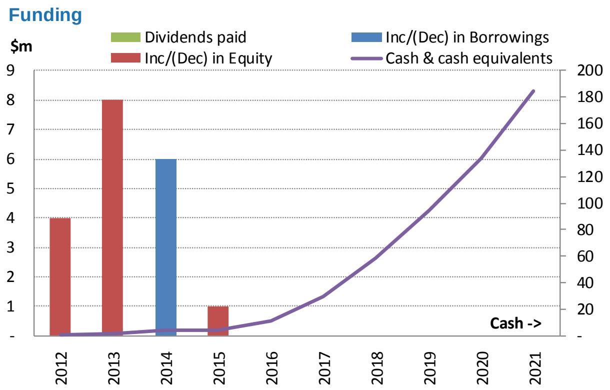
BALANCE SHEET	M$A	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
Cash & cash equivalents		1	2	4	4	11	29	58	94	134	184
Other current assets		0	2	1	3	6	8	9	10	9	9
PPE, Exp & Dev		9	14	24	41	66	88	105	117	98	82
Other non-current assets		-	-	0	5	15	21	26	30	27	26
Total Assets		**10**	**18**	**29**	**53**	**98**	**147**	**199**	**252**	**268**	**300**
Short term debt		1	-	1	1	1	-	-	-	-	-
Other current liabilities		1	1	1	2	2	8	9	10	8	20
Long term debt		-	-	5	5	5	-	-	-	-	-
Other non-current liabilities		-	-	1	8	22	26	34	41	41	28
Total Liabilities		**1**	**1**	**8**	**15**	**29**	**33**	**43**	**52**	**48**	**48**
Minorities		-	-	-	-	-	-	-	-	-	-
Total Funds Employed		**9**	**17**	**21**	**38**	**69**	**114**	**156**	**200**	**220**	**252**
Debt		1	-	6	6	6	-	-	-	-	-
Net debt		-0	-2	2	2	-5	-29	-58	-94	-134	-184

Source: company data and Ord Minnett forecasts

$A currency unless otherwise noted. Nominal $ basis. Year ending June.

Financial analysis





OPERATIONAL METRICS		FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
EBITDA margin	%	-58.5	-11.4	61.0	76.8	80.2	81.8	82.1	82.0	81.4	80.3
EBIT margin	%	-129.9	-66.9	48.0	71.9	72.5	70.4	67.4	63.0	32.4	53.3
Normalized NPAT margin	%	-133.7	-72.2	37.9	43.8	43.6	43.0	41.9	39.3	18.6	35.7
Revenue growth	%		64.3	352.2	160.6	79.3	49.2	20.7	11.5	-2.8	-13.6
EBITDA growth	%		-67.9	-2,518.0	227.9	87.3	52.1	21.1	11.4	-3.4	-14.8
EBIT growth	%		-15.4	-424.8	290.1	80.7	45.0	15.6	4.3	-50.0	42.1
Normalized ROA	%	-18.8	-9.4	13.7	22.2	21.5	21.2	18.4	15.2	6.6	9.7
Normalized ROE	%	-21.3	-10.0	19.1	31.3	30.6	27.4	23.5	19.2	8.0	11.6

VALUATION RATIOS		FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
Fully diluted shares (end of period)	000,000	347.7	453.7	582.3	582.3	582.3	582.3	582.3	582.3	582.3	582.3
Weighted fully diluted shares	000,000	232.7	400.6	485.9	582.3	582.3	582.3	582.3	582.3	582.3	582.3
Share price (end of period)	$/share	0.06	0.07	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Market Cap	M$A	19	32	27	27	27	27	27	27	27	27
Less Net Debt	M$A	-0	-2	2	2	-5	-29	-58	-94	-134	-184
Market EV	M$A	19	30	29	29	22	-3	-32	-67	-107	-157
EPS before abnormals	c	-0.8	-0.4	0.8	2.0	3.6	5.4	6.3	6.6	3.0	5.0
EPS growth	%		-48.5	-295.8	151.1	78.7	47.1	17.5	4.5	-53.9	65.5
PER	x	-5.7	-11.1	5.7	2.3	1.3	0.9	0.7	0.7	1.5	0.9
Op Cash flow per share	c	-0.3	-0.4	1.3	3.2	6.2	8.3	10.0	11.2	11.5	9.6
Price / Op Cash flow	x	-14.4	-12.7	3.7	1.4	0.7	0.6	0.5	0.4	0.4	0.5
EV/EBITDA (n.b. future EV)	x	-32.5	-96.2	4.6	1.4	0.6	-0.0	-0.4	-0.8	-1.4	-2.4

LEVERAGE		FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
Net Debt / Book Equity	%	-2	-9	11	5	-8	-26	-37	-47	-61	-73
Net Debt / (ND+Book Equity)	%	-2	-10	10	5	-8	-35	-60	-89	-156	-273
Net Debt / Total Assets	%	-2	-9	8	4	-5	-20	-29	-37	-50	-61
EBIT Interest cover	x	-34.3	-12.6	5.3	7.2	9.0	12.7	18.3	21.7	17.2	-
Debt / Free Cash Flow	x	-0.1	-	-1.7	-14.2	0.8	-	-	-	-	-

MARGIN ANALYSIS	real $	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
Revenue/boe	$A/boe	34	38	75	93	95	96	96	96	96	96
Opex/boe	$A/boe	53	43	29	22	19	17	17	17	18	19
EBITDA margin/boe	$A/boe	-20	-4	46	72	76	78	79	79	78	77
D&A/boe	$A/boe	24	21	10	5	7	11	14	18	47	26
Tax and financing/boe	$A/boe	1	2	8	26	27	26	24	23	13	17
Cash margin	%	-58	-11	61	77	80	82	82	82	81	80
EBIT margin	%	-130	-67	48	72	72	70	67	63	32	53
NPAT margin	%	-173	-120	34	44	44	43	42	39	19	36
Resource to production ratio	years	178.4	125.2	54.9	26.1	14.3	9.1	6.7	5.2	4.4	4.7
Product mix (liquids % of total)	%	57	71	77	78	80	80	80	80	80	80

Source: company data and Ord Minnett forecasts

$A currency unless otherwise noted. Nominal $ basis. Year ending June.

Corporate overview

Board

Chris Rowe, BA, MA Economics and Law (Cambridge), Chairman

Over 35 years of legal and commercial experience in the oil and gas and resources sector. Chairman of ASX listed Northern Star Resources and Hawkesbridge Capital and sits on the advisory committee of US-based Avalon Oil and Gas Production Partnership. Former Executive Chairman of Cultus Petroleum NL, Chairman of International Oilex (TSX) and Deputy Chair of UTS Energy (TSX).

Laurence Roe, BSc, Managing Director

Co-founder of Target Energy Limited. Over 30 years global industry experience, including senior and consulting positions with Australian companies including Magellan Petroleum and Hardman Resources. Former Managing Director and Exploration Manager of Bounty Oil & Gas NL (ASX).

Stephen Mann, Non-executive Director

CA, Fellow of Institute of Chartered Accountants of Australia. Over 30 years of experience in public practice with over 25 years' experience in the resources sector, including director of Investmet Limited, Non-Executive Chairman to Pegasus Metals Limited (ASX) and Altus Renewables Limited. Former Managing Partner of BDO Chartered Accountants and founder of BDO's Corporate Finance Division.

Ralph Kehle, PhD, MS, BS (Hons) Chairman of TELA (USA) (subsidiary)

Over 50 years industry experience, including President of Eichen Petroleum Management, Inc., Manager of Avalon Oil and Gas Production Partnership, former CEO and Chairman of Hershey Oil Corp, senior positions with Exxon Mobil, founder of TKA Exploration Limited and OilTex International Limited. Former Adjunct Professor of Geological Sciences at the University of Texas (Austin).

Management

Laurence Roe, BSc, Managing Director

As above.

Ross Dinsdale, BCom, CFA, Grad Dip Applied Finance - Business Development Manager

Previously Senior Associate at Azure Capital where he worked in the investment banking team and jointly led the oil and gas division. Prior to Azure Ross worked in London for Oriel Securities in their UK oil and gas equity research team and with Goldman Sachs JBWere and Commonwealth Securities.

Don L. Sytsma, BSc-Accounting, CPA - VP (Finance) TELA (USA) Inc

Thirty years financial, commercial and accounting experience in the upstream and mid-stream oil and gas industry, serving previously served as Chief Financial Officer and Principal Accounting Officer of Lucas Energy Inc. (LEI: NYSE:AMEX) and multiple microcap OTC stock exchange traded oil and gas exploration and production companies.

Robert Gregg (Gregg) Bonagurio, B.S., Reservoir Engineer (Houston)

Over thirty years' experience with Amoco, BP, independents and as a consultant, in West Texas, the Mid Continent (Oklahoma, Kansas and Arkansas), Gulf Coast, New Mexico, Colorado and Wyoming, in drilling, production and reservoir evaluation.

Capital structure

Shares on issue:	453,746,588
Options:	40,451,824 @ $0.10 expiring 31st March 2014 (assume not exercised)
	8,571,428 @ $0.07 expiring 1st October 2014 (assume exercised)
	750,000 @ $0.12 expiring 24th October 2014 (assume exercised)
Performance rights:	-
Convertible notes:	$6.0 convertible notes (unlisted) due 31 March 2017, issued February 2014
	($3.3m issued, $2.7m subject to EGM approval).
	10.00% pa coupon paid quarterly. Conversion price $0.05/share. Assume converted FY17.
Substantial shareholders:	Investmet 29%
	Wyllie Group 5%
Ownership:	Board / management 8%
	Institutions nil
	Corporates nil
	Retail/other ~58%

Appendices

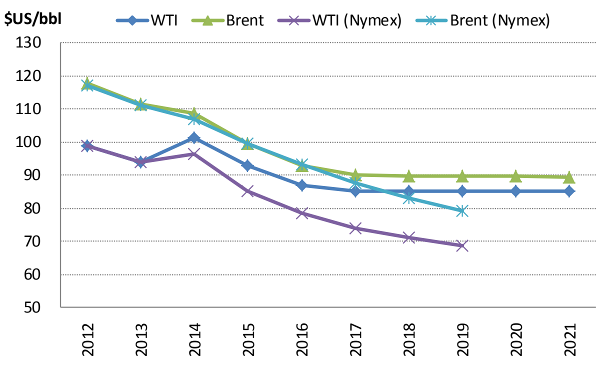
Appendix 1: Tenement summary

Project	Lease / Unit	Basin	Description	Depth Limits	TEX WI	Royalty	Gross Acres	Net Acres
Fairway								
	BOA	Permian	S12, Block 33, T-2S, A-1353; T&P RR Co Survey, Howard Co	None	60%	25%	640.0	384.0
	Darwin	Permian	S44, Block 33, T-1S, A-1292; T&P RR Co Survey, Howard Co	None	60%	25%	640.0	384.0
	Bunbury	Permian	S102 A-1405; S103 A-1405; S104 A-1495; Bl 29 W&NW RR Co, Howard Co	None	60%	25%	918.0	550.8
	Ballarat	Permian	S 184 & 185, Bl 28, A-815 & A-A483; W&NW RR Survey, Glasscock Co	None	60%	25%	355.7	213.4
	Taree	Permian	S193, Bl 28, A-815 and A-A483; W&NW RR Co Survey, Glasscock Co	None	60%	25%	320.0	192.0
	Sydney	Permian	S188 Block 29 A-170; W&NW RR Co Survey, Glasscock Co	None	60%	25%	480.0	288.0
	Unnamed	Permian	S4, Block 32, T-2-S, A-1354; T & P RR Co Survey, Howard Co	None	60%	25%	610.0	366.0
	Unnamed	Permian	S24, Bl 35 A-1538; S26 Bl 35 A-1415; T&P RR Co Survey, Howard Co	None	60%	25%	260.0	156.0
	Wagga Wagga	Permian	S221, Block 29, A-496; W&NW RR Co Survey, Glasscock Co	None	45%	25%	305.0	137.3
Merta								
	Merta No. 1 Well Gas Unit No. 2	Gulf Coast	S3 A-219 International and Great Northern RR Co Survey, Wharton Co	7,650 ft - 7,880 ft	25%	25.7%	303.0	75.7
Section 28								
	SML #A-1, A-3 Unit	Gulf Coast	St Martin Ph	None	25%	28%	40.0	10.0
	SML #A-2 Unit	Gulf Coast	St Martin Ph	None	25%	28%	40.0	10.0
E Chalkley								
	Unit Agreement: CK W RA SU	Gulf Coast	S11, 13, 14 &15, T12S-R6W, Cameron Ph	8,000 ft - 10,000 ft	35%	30.5%	714.9	250.2
					Total		5626	3017

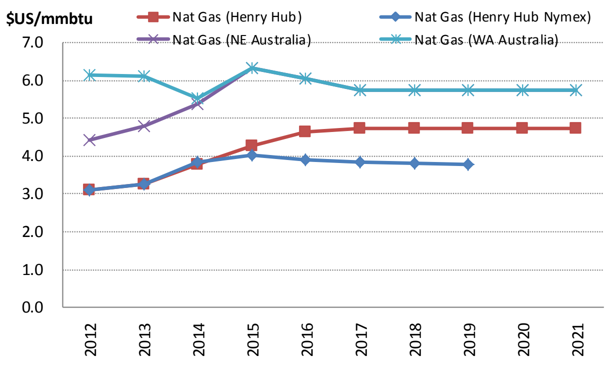
Source: Target Energy Limited, December 2013 quarterly, 31st January 2014

Appendix 2: Commodity price assumptions

Oil prices (real $US/bbl)



Gas prices (real $US/mmBtu)



CPI & FOREX		FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
CPI											
US inflation rate	% pa	1.80	1.70	2.25	2.20	2.20	2.20	2.20	2.20	2.20	2.20
Australian inflation rate	% pa	1.20	2.40	2.35	2.38	2.50	2.50	2.50	2.20	2.20	2.20
Inflation Factor - US : Dec-13 base	-	0.964	0.980	1.005	1.028	1.050	1.073	1.097	1.121	1.146	1.171
Forex											
$US/$A forex (period average): base	$US/$A	1.03	1.03	0.90	0.88	0.83	0.80	0.80	0.80	0.80	0.80
Oil prices	nominal										
WTI	$US/bbl	95	92	102	96	91	91	93	95	97	100
Brent	$US/bbl	113	109	109	102	97	97	99	101	103	105
WTI (Nymex)	$US/bbl	95	92	97	88	82	79	78	77		
Brent (Nymex)	$US/bbl	113	109	108	102	98	94	91	89		
Oil prices	real										
WTI	$US/bbl	99	94	101	93	87	85	85	85	85	85
Brent	$US/bbl	118	111	109	100	93	90	90	90	90	90
WTI (Nymex)	$US/bbl	99	94	96	85	78	74	71	69		
Brent (Nymex)	$US/bbl	117	111	107	100	93	88	83	79		
WTI	$A/bbl	96	92	112	106	105	106	106	106	106	106
Brent	$A/bbl	114	108	121	114	112	112	112	112	112	112
WTI (Nymex)	$A/bbl	96	92	107	97	95	92	89	86		
Brent (Nymex)	$A/bbl	113	108	119	114	113	110	104	99		
Gas prices	real										
Nat Gas (Henry Hub)	$US/mmBtu	3.1	3.3	3.8	4.3	4.6	4.7	4.7	4.7	4.7	4.7
Nat Gas (Henry Hub Nymex)	$US/mmBtu	3.1	3.3	3.9	4.0	3.9	3.8	3.8	3.8		
Nat Gas (NE Australia)	$US/mmBtu	4.4	4.8	5.4	6.3	6.0	5.7	5.7	5.7	5.7	5.7
Nat Gas (WA Australia)	$US/mmBtu	6.1	6.1	5.5	6.3	6.0	5.7	5.7	5.7	5.7	5.7
Nat Gas (Henry Hub)	$A/GJ	2.9	3.0	4.0	4.6	5.3	5.6	5.6	5.6	5.6	5.6
Nat Gas (Henry Hub Nymex)	$A/GJ	2.9	3.0	4.1	4.4	4.5	4.5	4.5	4.5		
Nat Gas (NE Australia)	$A/GJ	4.1	4.4	5.7	6.9	6.9	6.8	6.8	6.8	6.8	6.8
Nat Gas (WA Australia)	$A/GJ	5.6	5.6	5.8	6.9	6.9	6.8	6.8	6.8	6.8	6.8
Memo: Nat Gas (NE Australia) nominal	$A/GJ	3.9	4.3	5.7	7.0	7.3	7.3	7.5	7.6	7.8	7.9
Other prices	real										
LPG	$US/bbl	80	77	77	70	65	63	63	63	63	63
LNG	$US/t	894	850	832	767	718	699	698	697	697	696

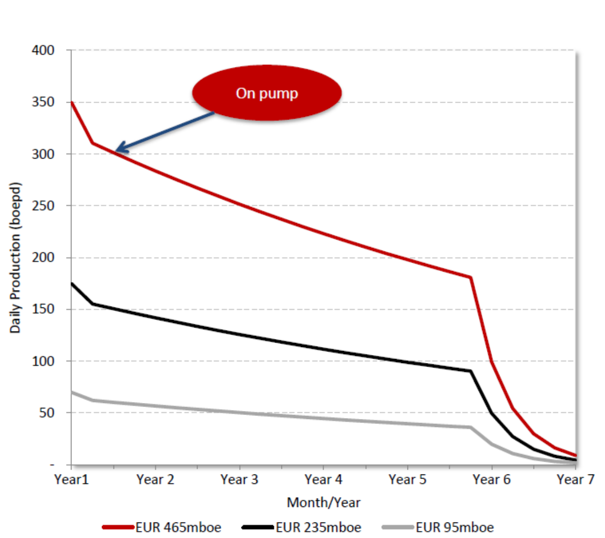
Source: Reserve Bank data and Ord Minnett forecasts. Nymex as of 14 Jan 2014 Year ending June.

Appendix 3: Fairway project type curves

N.B. The Fusselman type curves are based on the experience of Target's operator, Trilogy, and reflect modest observed decline while on pump, prior to water breakthrough after five or six years. This type curve is different to the type curve currently included in Target's presentations, but is considered more representative of expected well behaviour.

Fusselman wells: Target's internal model

Fusselman Type Curves



Single Well Economics[1,2]

Assumptions		
Well Capex	US$m.	$1.7
Oil cut	%	86

High Case - EUR 465MBOE, 90 day IP rate 350boepd				
WTI	US$/bbl	80	90	100
IRR	%	601	715	840
NPV (10%)	US$m.	$9.9	$11.2	$12.5

Mid Case - EUR 235MBOE, 90 day IP rate 175boepd				
WTI	US$/bbl	80	90	100
IRR	%	215	252	291
NPV (10%)	US$m.	$4.4	$5.0	$5.7

Low Case - EUR 95MBOE, 90 day IP rate 70boepd				
WTI	US$/bbl	80	90	100
IRR	%	55	67	78
NPV (10%)	US$m.	$1.0	$1.3	$1.6

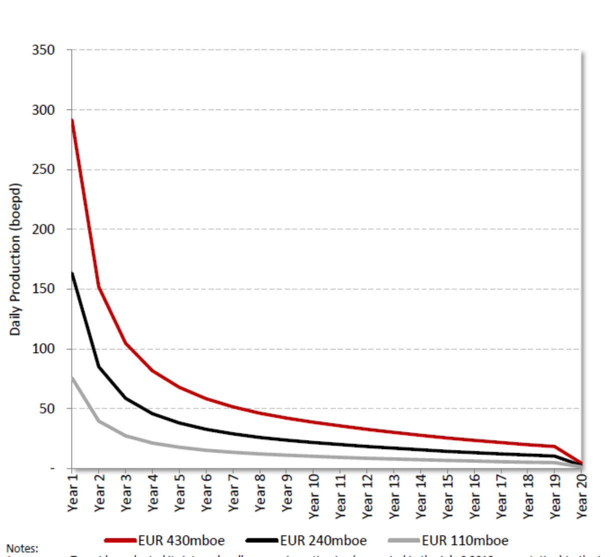
Notes:
1. Target internal estimates. See list of assumptions and risks on page 29.
2. The IRR (internal rate of return) and NPV 10% (net present value using a real, pre-tax discount rate of 10%) are calculated using future net revenue, after deductions for operating and capital expenses, production taxes and ad valorem taxes, but before corporate income tax and corporate overheads.

16

Source: Target Energy Limited, investor presentation, 2nd July 2013, p 16

Fusselman wells: reserve auditor model

Fusselman Type Curves[1]



Single Well Economics[1,2]

Assumptions		
Well Capex	US$m.	$1.8
Oil cut	%	86

High Case - EUR 430MBOE				
WTI	US$/bbl	80	90	100
IRR	%	423	506	596
NPV (10%)	US$m.	$7.0	$8.0	$9.0

Mid Case - EUR 240MBOE				
WTI	US$/bbl	80	90	100
IRR	%	165	198	233
NPV (10%)	US$m.	$3.3	$3.9	$4.4

Low Case - EUR 110MBOE				
WTI	US$/bbl	80	90	100
IRR	%	41	51	62
NPV (10%)	US$m.	$0.8	$1.1	$1.3

Notes:
1. Target has adapted its internal well economics estimates (presented in the July 2 2013 presentation) to the type curve used by the Fairway Project reserve auditor. See list of assumptions and risks on page 29.
2. The IRR (internal rate of return) and NPV 10% (net present value using a real, pre-tax discount rate of 10%) are calculated using future net revenue, after deductions for operating and capital expenses, production taxes and ad valorem taxes, but before corporate income tax and corporate overheads.

22

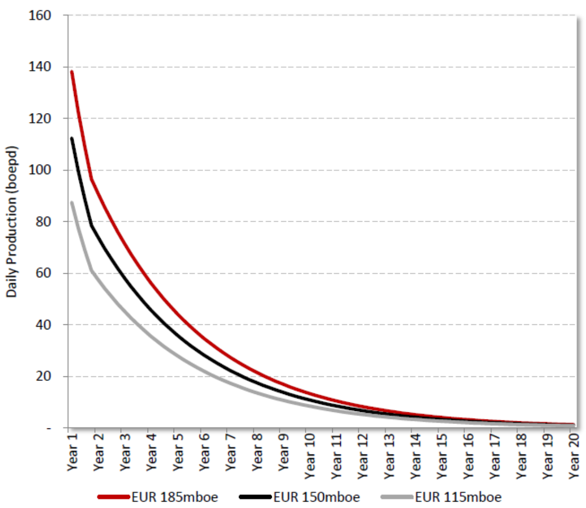
Source: Target Energy Limited, AGM presentation, 14th November 2013, p 22

Wolfberry wells are characterised by a long producing life.

A secondary completion in the Wolfberry zones enhances the estimated ultimate recovery, production and field life.

Wolfberry wells

Wolfberry Type Curves



Single Well Economics[1,2]

Assumptions		
Well Capex	US$m.	$2.1
Oil cut	%	80

High Case - EUR 185MBOE				
WTI	US$/bbl	80	90	100
IRR	%	90	107	124
NPV (10%)	US$m.	$2.3	$2.7	$3.2

Mid Case - EUR 150MBOE				
WTI	US$/bbl	80	90	100
IRR	%	64	77	89
NPV (10%)	US$m.	$1.6	$1.9	$2.3

Low Case - EUR 115MBOE				
WTI	US$/bbl	80	90	100
IRR	%	40	50	59
NPV (10%)	US$m.	$0.9	$1.2	$1.4

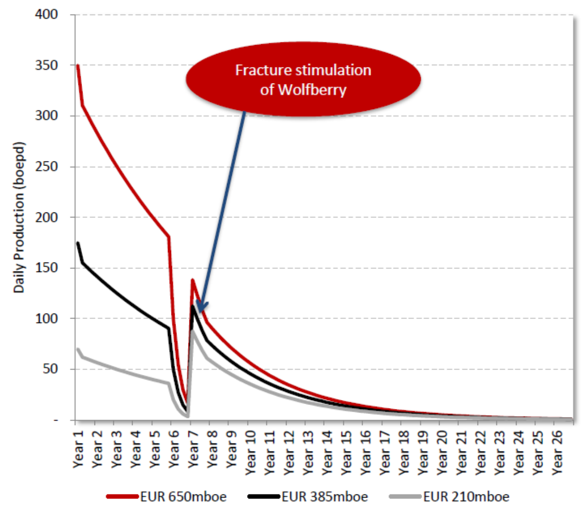
Notes:
1. Target internal estimates. See list of assumptions and risks on page 25.
2. The IRR (internal rate of return) and NPV 10% (net present value using a real, pre-tax discount rate of 10%) are calculated using future net revenue, after deductions for operating and capital expenses, production taxes and ad valorem taxes, but before corporate income tax and corporate overheads.

23

Source: Target Energy Limited, AGM presentation, 14th November 2013, p 23

Wolfman wells with re-stimulation

Wolfman Type Curves



Single Well Economics [1,2]

Assumptions		
Well Capex	US$m.	$2.4
Oil cut	%	84

High Case - EUR 650MBOE, 90 day IP rate 350boepd				
WTI	US$/bbl	80	90	100
IRR	%	283	332	384
NPV (10%)	US$m.	$10.9	$12.4	$13.9

Mid Case - EUR 385MBOE, 90 day IP rate 175boepd				
WTI	US$/bbl	80	90	100
IRR	%	106	124	143
NPV (10%)	US$m.	$4.9	$5.7	$6.6

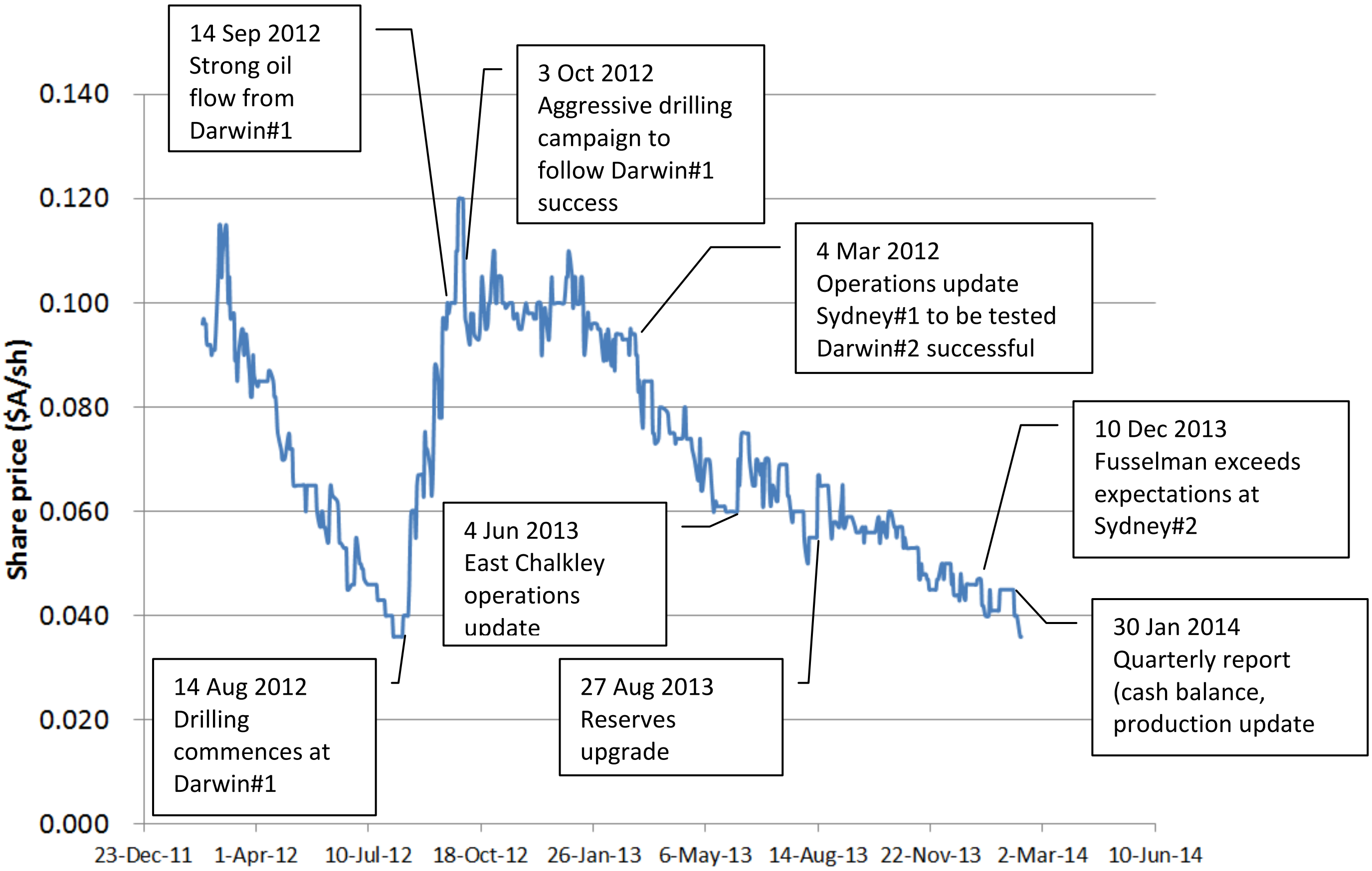
Low Case - EUR 210MBOE, 90 day IP rate 70boepd				
WTI	US$/bbl	80	90	100
IRR	%	26	32	38
NPV (10%)	US$m.	$1.2	$1.6	$2.0

Notes:
1. Target internal estimates. See list of assumptions and risks on page 29.
2. The IRR (internal rate of return) and NPV 10% (net present value using a real, pre-tax discount rate of 10%) are calculated using future net revenue, after deductions for operating and capital expenses, production taxes and ad valorem taxes, but before corporate income tax and corporate overheads.

18

Source: Target Energy Limited, investor presentation, 2nd July 2013, p 18

Appendix 4: Share price performance



Source: data from Iress

Please contact your Ord Minnett Adviser for further information on our document.

Research			
Tim Smart	Head of Research	Sydney	tsmart@ords.com.au
David Brennan, CFA	Senior Resource Analyst	Sydney	dbrennan@ords.com.au
Paresh Patel	Senior Research Analyst	Sydney	ppatel@ords.com.au
John Young	Senior Research Analyst	Melbourne	jyoung@ords.com.au
Brad Dunn	Analyst	Sydney	bdunn@ords.com.au
Nicholas McGarrigle	Analyst	Sydney	nmcgarrigle@ords.com.au

Ord Minnett Offices

Adelaide
Level 11
13 Grenfell Street
Adelaide SA 5000
Tel: (08) 8203 2500
Fax: (08) 8203 2525

Brisbane
Level 31
10 Eagle St
Brisbane QLD 4000
Tel: (07) 3214 5555
Fax: (07) 3214 5550

Buderim
Sunshine Coast
1/99 Burnett Street
Buderim QLD 4556
Tel: (07) 5430 4444
Fax: (07) 5430 4400

Caloundra, Sunshine Coast
79-81 Bulcock Street
Caloundra QLD 4551
Tel: (07) 5491 3100
Fax: (07) 5491 3222

Canberra
101 Northbourne Avenue
Canberra ACT 2600
Tel: (02) 6206 1700
Fax: (02) 6206 1720

Coffs Harbour
Suite 4
21 Park Avenue
Coffs Harbour NSW 2450
Tel: (02) 6652 7900
Fax: (02) 6652 5716

Gold Coast
Level 7, 50 Appel Street
Surfers Paradise QLD 4217
Tel: (07) 5557 3333
Fax: (07) 5557 3377

Mackay
45 Gordon Street
Mackay QLD 4740
Tel: (07) 4969 4888
Fax: (07) 4969 4800

Melbourne
Level 23
120 Collins Street
Melbourne VIC 3000
Tel: (03) 9608 4111
Fax: (03) 9608 4142

Newcastle
426 King Street
Newcastle NSW 2300
Tel: (02) 4910 2400
Fax: (02) 4910 2424

Tamworth
Suite 3
344-346 Peel Street
Tamworth NSW 2340
Tel: (02) 6761 3333
Fax: (02) 6761 3104

Wollongong
Level 1
17 Flinders Street
Wollongong NSW 2520
Tel: (02) 4226 1688
Fax: (02) 4226 1604

Head Office

Sydney
Level 8, NAB House
255 George Street
Sydney NSW 2000
Tel: (02) 8216 6300
Fax: (02) 8216 6311
www.ords.com.au

International

Hong Kong
1801 Ruttonjee House
11 Duddell Street
Central, Hong Kong
Tel: +852 2912 8980
Fax: +852 2813 7212
www.ords.com.hk

Guide to Ord Minnett Recommendations

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historic volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

Disclosure: Ord Minnett is the trading brand of Ord Minnett Limited ABN 86 002 733 048, holder of AFS Licence Number 237121, and an ASX Market Participant. Ord Minnett Limited and/or its associated entities, directors and/or its employees may have a material interest in, and may earn brokerage from, any securities referred to in this document, or may provide services to the company referred to in this report. This document is not available for distribution outside Australia, New Zealand and Hong Kong and may not be passed on to any third party or person without the prior written consent of Ord Minnett Limited. Further, Ord Minnett and/or its affiliated companies may have acted as manager or co-manager of a public offering of any such securities in the past three years. Ord Minnett and/or its affiliated companies may provide or may have provided corporate finance to the companies referred to in the report.

Ord Minnett and associated persons (including persons from whom information in this report is sourced) may do business or seek to do business with companies covered in its research reports. As a result, investors should be aware that the firm or other such persons may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Ord Minnett acted as lead manager for the February 2014 issue of convertible notes and earned fees for acting in this capacity.

This document is current as at the date of the issue but may be superseded by future publications. You can confirm the currency of this document by checking Ord Minnett's internet site.

Additional Disclosure: The analyst discloses that when conducting on-site visits to inspect property, plant and equipment that the analyst may have received assistance from the company or companies involved. This assistance may have included on-site transport, incidental expenses, and access to equipment. Where practical, OML policy is to pay for all travel and accommodation expenses. The analyst conducted a site visit to the company's operations in October 2013.

Disclaimer: Ord Minnett Limited believes that the information contained in this document has been obtained from sources that are accurate, but has not checked or verified this information. Except to the extent that liability cannot be excluded, Ord Minnett Limited and its associated entities accept no liability for any loss or damage caused by any error in, or omission from, this document. This document is intended to provide general financial product advice only, and has been prepared without taking account of your objectives, financial situation or needs, and therefore before acting on advice contained in this document, you should consider its appropriateness having regard to your objectives, financial situation and needs. If any advice in this document relates to the acquisition or possible acquisition of a particular financial product, you should obtain a copy of and consider the Product Disclosure Statement prospectus or other disclosure material for that product before making any decision. Investments can go up and down. Past performance is not necessarily indicative of future performance.

Analyst Certification: The analyst certifies that: (1) all of the views expressed in this research accurately reflect their personal views about any and all of the subject securities or issuers; (2) no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed herein.

Ord Minnett Hong Kong: This document is issued in Hong Kong by Ord Minnett Hong Kong Limited, CR Number 1792608, which is licensed by the Securities and Futures Commission (CE number BAI183) for Dealing in Securities (Type 1 Regulated Activity) in Hong Kong. Ord Minnett Hong Kong Limited believes that the information contained in this document has been obtained from sources that are accurate, but has not checked or verified this information. Except to the extent that liability cannot be excluded, Ord Minnett Hong Kong Limited and its associated entities accept no liability for any loss or damage caused by any error in, or omission from, this document. This document is directed at Professional Investors (as defined under the Securities and Futures Ordinance of Hong Kong) and is not intended for, and should not be used by, persons who are not Professional Investors. This document is provided for information purposes only and does not constitute an offer to sell (or solicitation of an offer to purchase) the securities mentioned or to participate in any particular trading strategy. The investments described have not been, and will not be, authorized by the Hong Kong Securities and Futures Commission.

For summary information about the qualifications and experience of the Ord Minnett Limited research service, please visit http://www.ords.com.au/our-team-2/

For information regarding Ord Minnett Research's coverage criteria, methodology and spread of ratings, please visit http://www.ords.com.au/methodology/

For information regarding any potential conflicts of interest and analyst holdings, please visit http://www.ords.com.au/methodology/

This report has been authorised for distribution by Tim Smart, Head of Research at Ord Minnett Limited.