TARGET ENERGY LIMITED ABN 73 119 160 360

# TARGET ENERGY LIMITED

**CORPORATE PRESENTATION**
**AUGUST 2014**

# DISCLAIMER AND FORWARD-LOOKING STATEMENTS

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Certain statements in this presentation 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.

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.

# COMPANY SNAPSHOT

TARGET ENERGY LIMITED

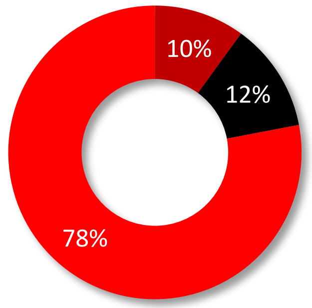
## Overview

- US Permian Basin and Gulf Coast, oil focused
- Offices in Houston, Texas and Perth, Western Australia
- Producing oil & gas and generating strong operating cash flows
- Low-risk, development-led growth
- Actively expanding acreage position in the Permian Basin and Gulf Coast

## Key Metrics

| | |
|---|---|
| ASX Code | TEX |
| OTCQX Code (US) | TEXQY |
| Shares on issue[1] | 453.7m |
| Unlisted options on issue[1] | 25.7m (@7c), 0.8m (@12c) |
| Share price[1] | A$0.043 / US$3.35 (TEXQY) |
| Market Capitalisation[1] | A$19.5m |
| Adjusted Cash[2] | A$7.2m |
| Convertible Notes[2] | A$6.0m – 120m Con. Notes (@5c) |

## Shareholder Composition




## Operating Metrics

| | |
|---|---|
| Net Daily Production[3] | 212 boepd (approx. 71% oil) |
| Gross Acres | 5,626 |
| Net Acres | 2,564 |
| Net Reserves & Resources[4] | • 1P Reserves: 611 mboe<br>• 2P Reserves: 1,178 mboe<br>• 3P Reserves: 2,024 mboe<br>• 3C Contingent Resources: 855 mbo |

Notes:
1. As at 4 August 2014. On the OTCQX International platform, Target trades in American Depositary Receipts (ADR's). Each ADR = 100 Ordinary Target Energy shares
2. Cash position and debt position at 30 June 2014. Cash is adjusted for A$3.5m in proceeds from sale of Fairway project interest to Victory. Settlement of transaction expected by 8/8/14..
3. Average daily production in June quarter 2014. Production figures are net to Target's working interest but before royalties
4. Reserves and resources as at 30 June 2013. Target has subsequently reduced its WI in the Fairway project from c.60% to c.50% since this time. See full list of disclosures and risks related to reserves and resources detailed in ASX release on 27 August 2013. The Company is not aware of any new information or data that materially effects the information included in the previous announcement and believes that all material assumptions and technical parameters underpinning the estimates in the previous announcement continue to apply and have not materially changed.

# CLEARLY DEFINED STRATEGY

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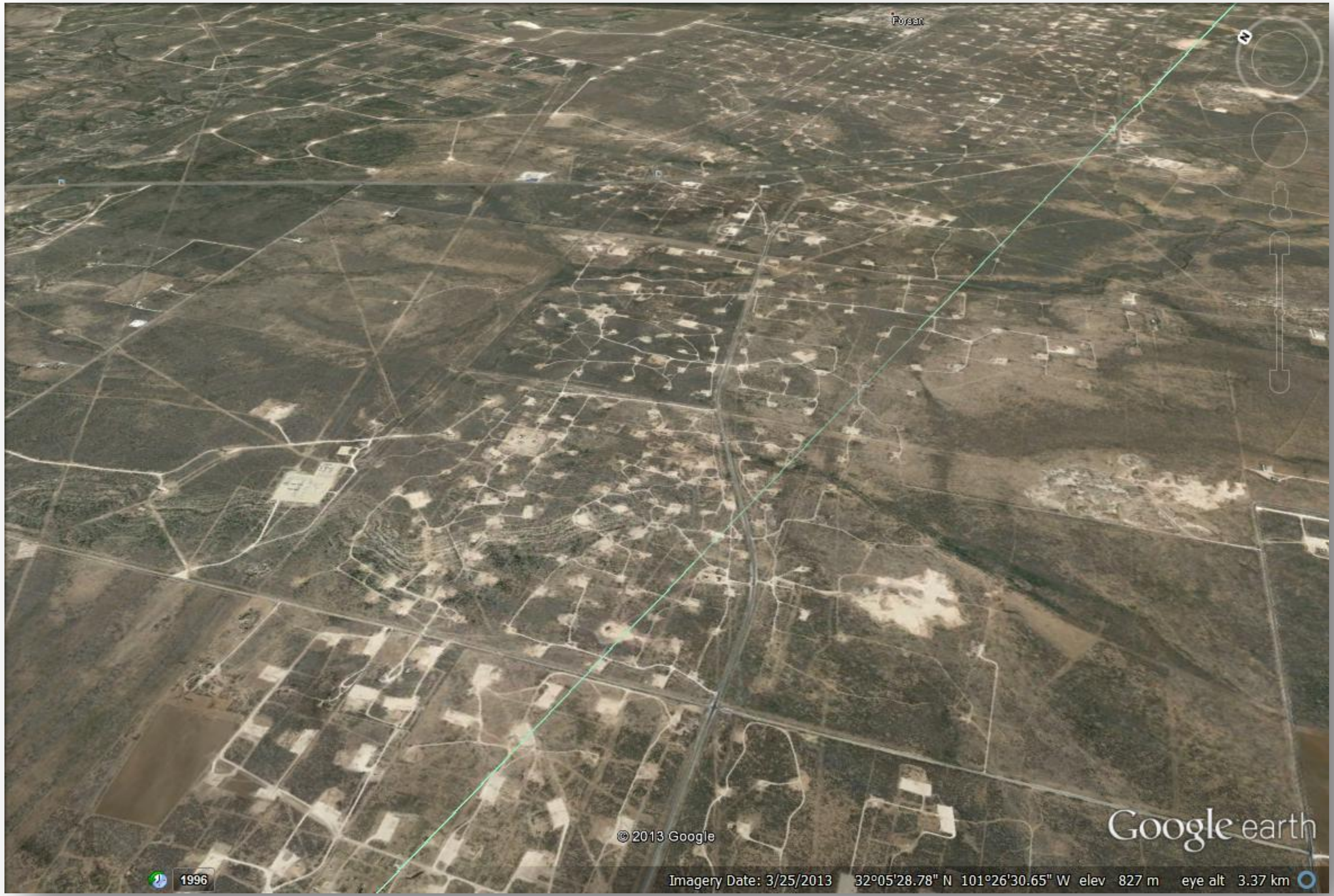
Target's strategy has three key elements which focus on proven oil basins, attractive well economics and partnerships.

Strategy

- Focus on US resource plays with attractive, repeatable well economics
- Acquire and develop assets in proven oil plays utilising advanced drilling and completion technologies
- Leverage strong relationships with local partners to expand portfolio in areas of interest

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



# ALIGNED BOARD AND MANAGEMENT

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| | | |
|---|---|---|
| Chris Rowe<br>Chairman | ▪ 13.0m shares | ▪ BA, MA Economics and Law (Cambridge)<br>▪ Over 35 years of legal and commercial experience in the oil and gas and resources sector<br>▪ Chairman of ASX listed Northern Star Resources and Hawkesbridge Private Equity<br>▪ Sits on the advisory committee of US-based Avalon Oil and Gas Production Partnership<br>▪ Former Executive Chairman of Cultus Petroleum NL, Chairman of International Oilex (TSX) and Deputy Chair of UTS Energy (TSX) |
| Laurence Roe<br>Managing Director | ▪ 8.6m shares | ▪ BSc<br>▪ Co-founder of Target Energy Limited<br>▪ Petroleum professional with over 30 years global industry experience<br>▪ Held senior and consulting positions with numerous Australian companies including Magellan Petroleum and Hardman Resources<br>▪ Former Managing Director and Exploration Manager of Bounty Oil & Gas NL (ASX) |
| Stephen Mann<br>Non Executive Director | ▪ 21.3m shares | ▪ CA, Fellow of Institute of Chartered Accountants of Australia<br>▪ Over 30 years of experience in public practice with over 25 years experience in the resources sector<br>▪ Non-Executive Chairman to Pegasus Metals Limited (ASX) and Altus Renewables Limited<br>▪ Former Managing Partner of BDO Chartered Accountants and founder of BDO's Corporate Finance Division |
| Dr. Ralph Kehle<br>Chairman of TELA (USA)<br>(subsidiary) | ▪ 2.6m shares | ▪ PhD, MS, BS (Hons)<br>▪ Over 50 years industry experience. Credited with the discovery of multiple large oil and gas fields in Northern America<br>▪ President of Eichen Petroleum Management, Inc. Manager of Avalon Oil and Gas Production Partnership<br>▪ Former CEO and Chairman of Hershey Oil Corp. He has also held senior positions with Exxon Mobil, a variety of exploration and production companies and was the founder of TKA Exploration Limited and OilTex International Limited<br>▪ Former Associate Professor of Geological Sciences at the University of Texas (Austin) |

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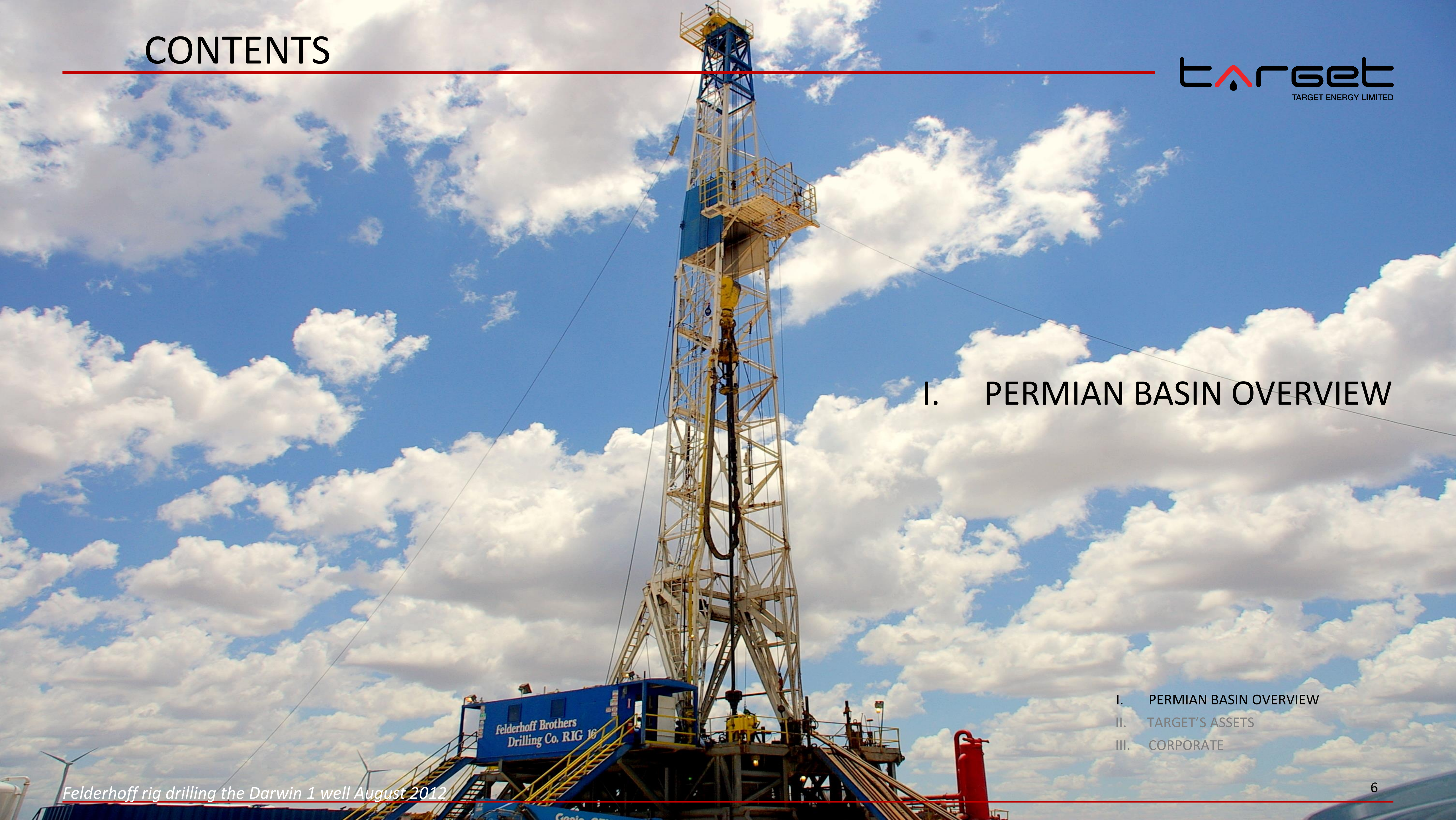


Felderhoff rig drilling the Darwin 1 well August 2012

## I. PERMIAN BASIN OVERVIEW

I. PERMIAN BASIN OVERVIEW
II. TARGET'S ASSETS
III. CORPORATE

# PERMIAN BASIN

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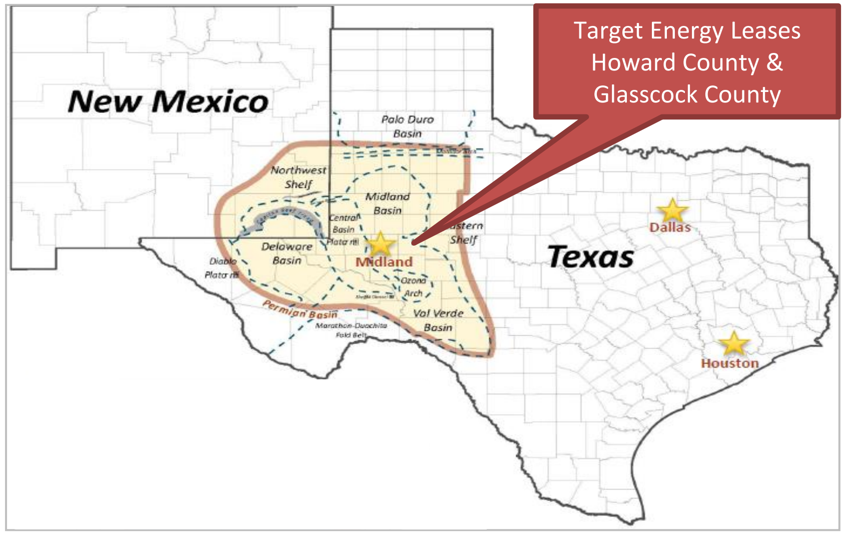
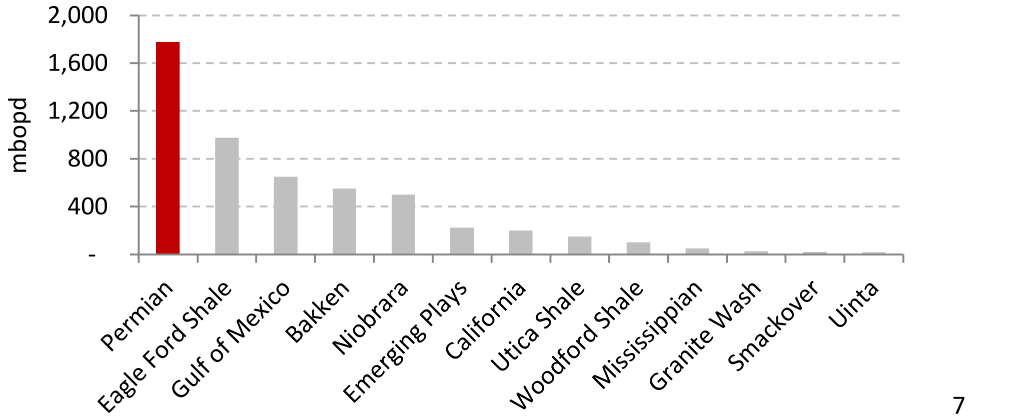
The Permian Basin is the most prolific and coveted onshore basin in the US.

- **Current daily production:** 1.3 million barrels of oil and 4 billion cubic feet of gas; more than 3 times Australia's oil output[2]
- **Oil production growth**: 1.8 mmbopd by 2016[3]
- **Relative growth:** oil production growth expected to be almost double the Eagle Ford Shale to 2018[4]
- **Gas quality:** gas produced is often liquids rich, attracting substantial premiums to the US 'dry gas' (methane) price
- **Reserve growth:** 29% of estimated US oil reserve growth in the US is expected to come from the Permian Basin[6]
- **Drilling activity:** 542 drilling rigs are operating in the Permian Basin, compared to Australia's total operating rig count of 21 rigs[7]
- **Corporate activity:** largest US onshore merger and acquisition (M&A) market in 2012 and 2013. Valuations are rising as resource plays are being de-risked[8]

Regional Map of Permian Basin [1]




Projected Oil Production Growth by US Play (2013 -2018)[5]




Notes:
1. Apache Energy
2. US EIA, HPDI, LLC, BP and APPEA - figures relate to 2012 production.
3. Bentek, University of Texas, APPEA estimates.
4. Bentek estimates.
5. Credit Suisse estimates.
6. North American Shale Quarterly.
7. Baker Hughes rig count (25 April 2014).
8. RBC Richardson Barr. US onshore M&A includes transactions over US$100m.

# STACKED PAY, THE KEY DIFFERENTIATOR

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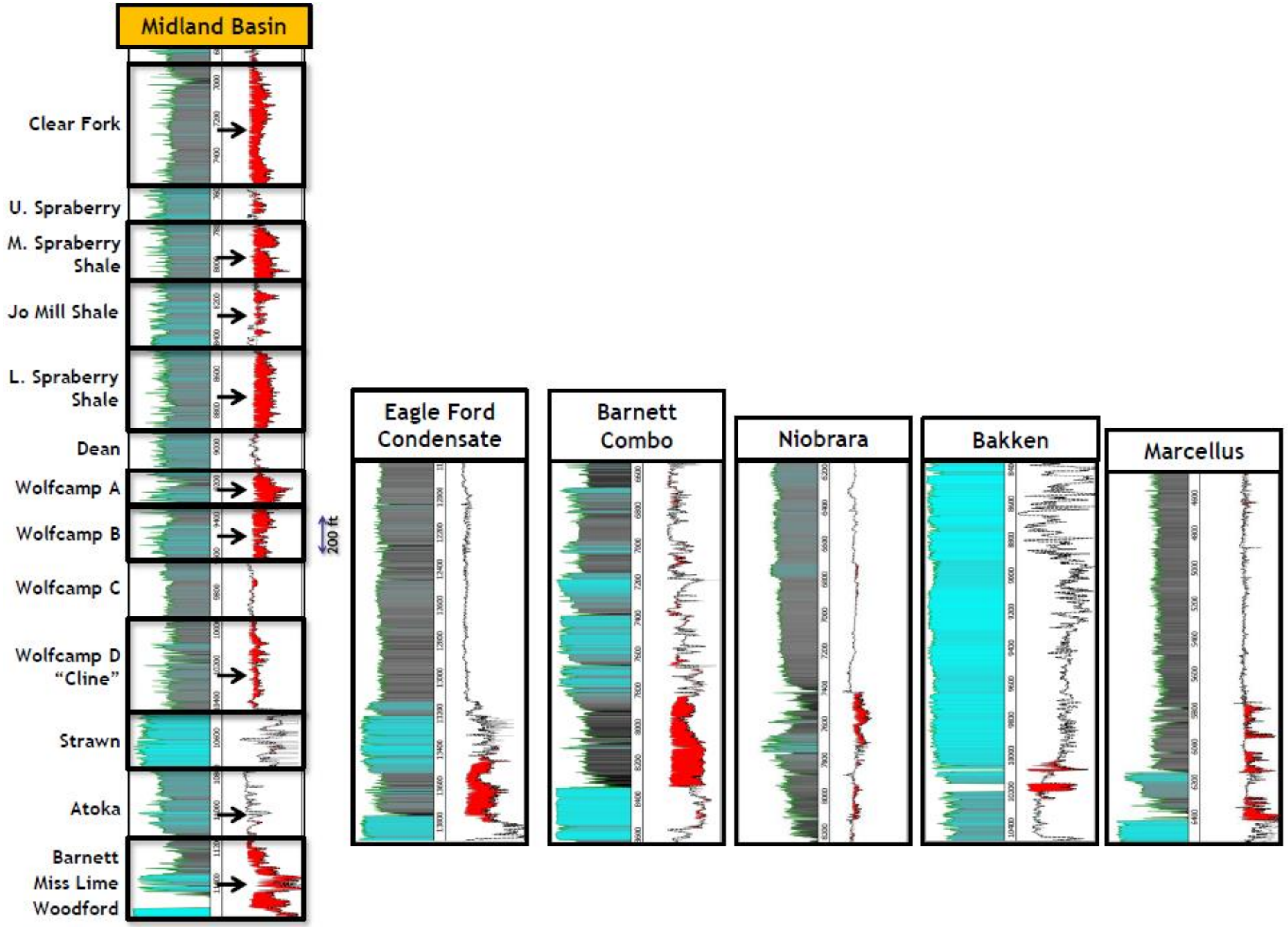
## Stacked pay increases the volume of oil in place and reduces risk.

A comparison of resistivity logs in US shale oil plays




- **Stacked pay**: Midland Basin resistivity logs illustrate (in red) multiple hydrocarbon bearing zones (around ~3,500ft in gross pay)
- **Differentiator:** stacked zones sets the Midland Basin apart from other US shale oil plays
- **Greater oil-in-place:** the Wolfcamp and Spraberry shales in the Midland Basin have significantly more oil in place than other US shale oil plays [1]
- **Low risk:** multiple target zones reduce overall risk

Notes:
1. Pioneer Natural Resources

# WHY THE PERMIAN BASIN? – GO WHERE THE OIL IS

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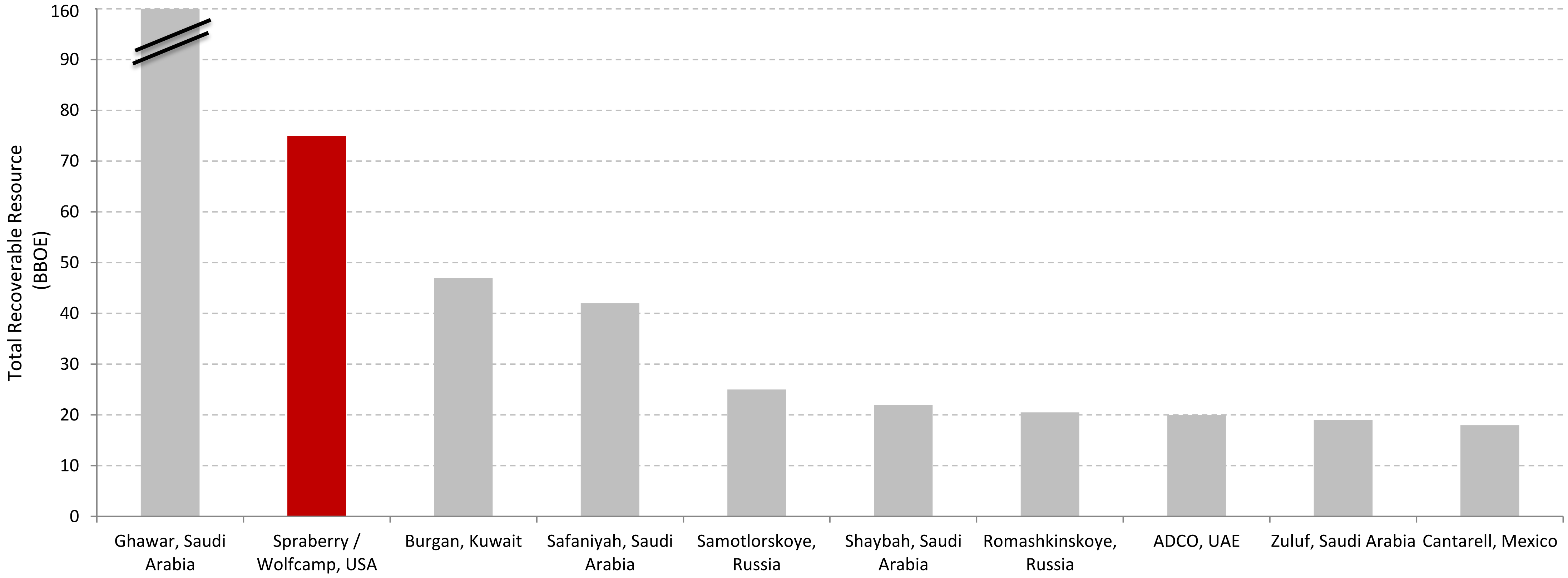
Spraberry / Wolfcamp field in the Permian Basin is the world's second largest oil field.

World's Largest Oil Fields (BBOE) [1,2]




Notes:
1. Recoverable resources as estimated by Pioneer Natural Resources (Spraberry / Wolfcamp) and Wood Mackenzie for all other fields.
2. Resources include estimated recoverable oil and gas for all fields.

# PERMIAN BASIN – A BLUE CHIP BASIN

Oil majors are highly active in the Permian Basin.

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2014 Permian Basin Capital Budgets of Leading Independents [1]

| Company Name | 2013 Hydrocarbon Production (mmboe) | Market Cap. [2] (US$ billion) | 2014 Permian Basin Capex Budget (US$ billion) |
|---|---|---|---|
| Occidental Petroleum | 53.2 | 76.5 | 2.2 |
| Pioneer Natural Resources | 58.9 | 28.1 | 2.4 |
| Apache Energy | 46.4 | 34.6 | 2.6 |
| Concho Resources | 33.6 | 13.8 | 2.3 |
| Cimarex Energy | 19.5 | 10.5 | 1.2 |
| Energen | 14.2 | 5.8 | 1.0 |
| Laredo Petroleum | 11.2 | 4.2 | 1.0 |
| Athlon Energy | 4.6 | 4.0 | 0.6 |

- "Permian oil production is Oxy's most profitable business" (Occidental Petroleum)
- "Accelerating Activity…6X investment, 7X operated rig count in 3 years" (Apache Energy Corporation)
- "The Permian represents the "prize" for oil shale drilling, given the large amount of vertical pay (productive rock) that can be drilled horizontally using new techniques. The Permian will likely support a higher density of wells per acre (downspacing) than any other shale play in the US." (Credit Suisse)

Notes:
1. SEC filings
2. Bloomberg as at 30/04/2013.

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## II. TARGET’S ASSETS


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*Oil tanks at East Chalkley*

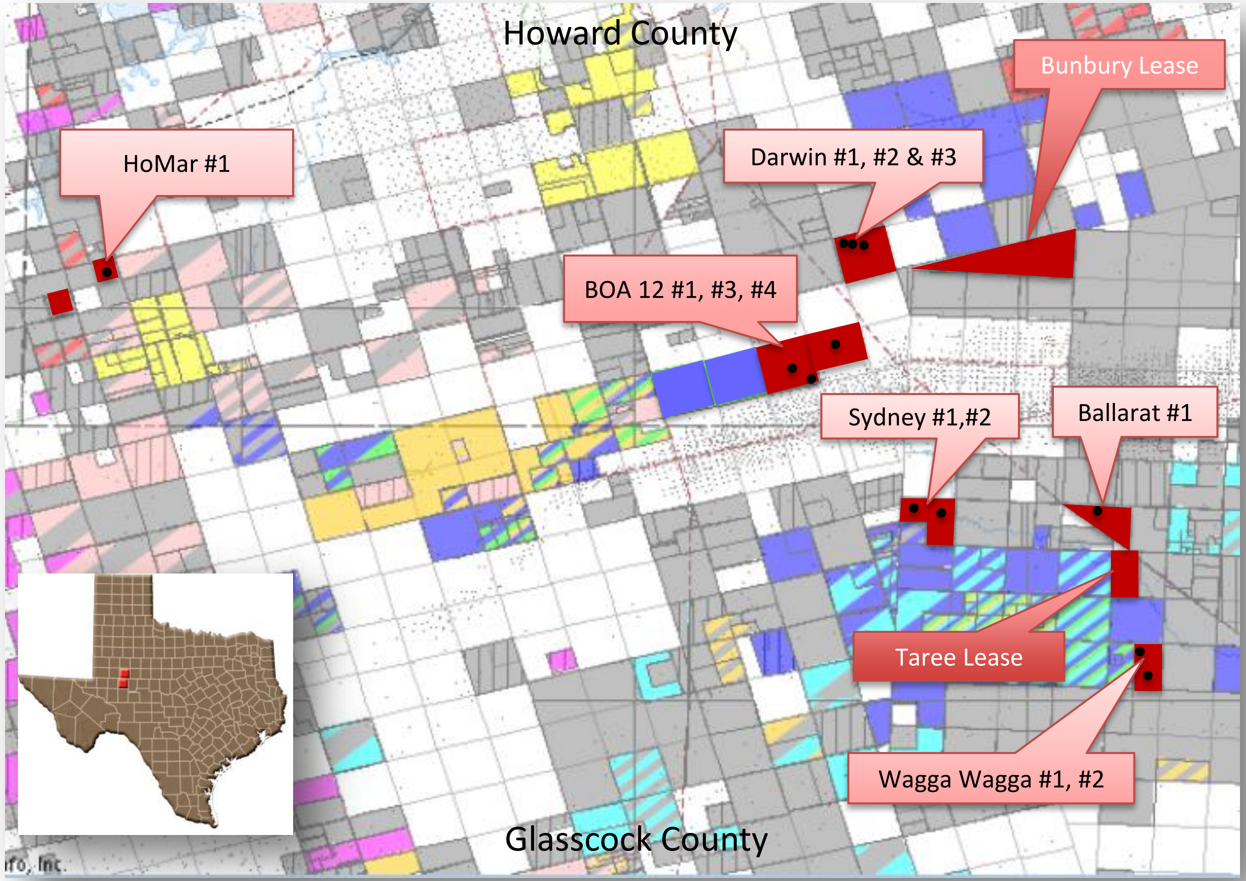
# PERMIAN BASIN – FAIRWAY PROJECT

target
TARGET ENERGY LIMITED

Target retains its focus on the Permian Basin focused company and is committed to expanding its high quality portfolio.

| | |
|---|---|
| Location | ▪ Howard & Glasscock Counties, Tx |
| Leaseholding | ▪ 4,528 acres (gross) / 2,219 acres (net) |
| Working Interest | ▪ 50% (except Wagga Wagga: 35%) |
| Operator | ▪ Trilogy Operating Inc. |
| Gross Production | ▪ 344 boepd (8 wells) |
| Net Production[1] | ▪ 191 boepd (8wells) |
| Net Reserves[2] | ▪ 1P Reserves: 504mboe<br>▪ 2P Reserves: 1,004mboe<br>▪ 3P Reserves: 1,764mboe |
| Estimated Well Capex (100%)[3] | ▪ US$1.8m per vertical well |
| Planned 2014 Work Program | ▪ 2014 nine-well drilling program now underway; tenth well (Homar) added<br>▪ Ongoing petrophysical analysis<br>▪ Additional leasing |
| Comments | ▪ Target has up to 110 well locations on 40 acre well spacing |

Map of Target's Fairway Project in the Midland Basin[4]

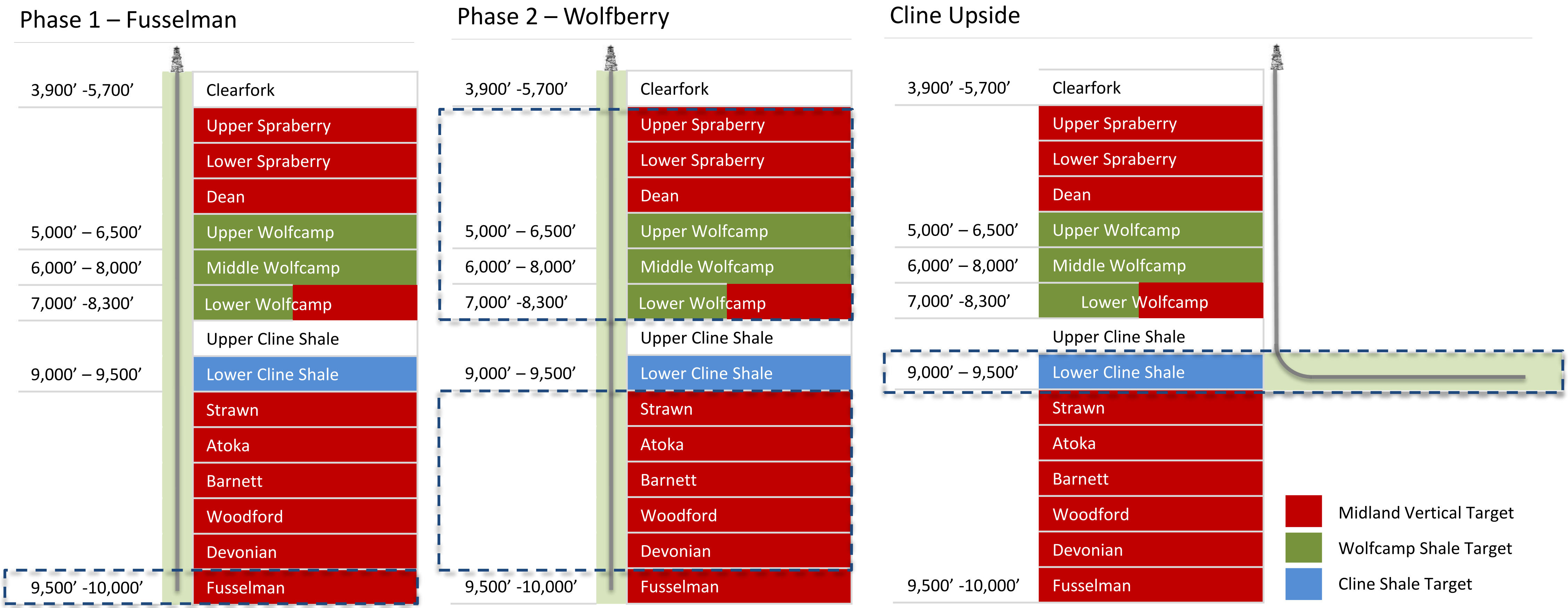



Target Pioneer Laredo Apache Laredo JV Meritage Other

Notes:
1. Average Daily Production during June quarter 2014. Figures are net to Target's working interest but before royalties.
2. Reserves as at 30 June 2013. Target has subsequently reduced its WI in the Fairway project from c.60% to c.50% since this time. A full list of disclosures and risks related to reserves is detailed in ASX release on 27 August 2013. See Note 6 on page 3 of this presentation for additional disclosures relating to reserves.
3. Assumes completion in the Wolfberry with fracture stimulation.
4. DrillingInfo June 2013.

# PERMIAN BASIN – FAIRWAY DEVELOPMENT PLAN

Multiple potential completions per well.[1]




- **Up to 110 well locations** (40 acre spacing)
- **Multiple completions per well**[1]
- **Phase 1:** complete in the Fusselman conventional (carbonate) reservoir – strong IP rates, good EUR's and potential 5-6 year producing life
- **Phase 2:** Fracture-stimulate relevant Wolfberry zones – 20+ years producing life
- **Cline upside:** potential to drill laterals into the Cline Shale

Notes:
1. Multiple completions per well cannot be assured at every well location. Completions are subject to technical and commercial feasibility. No of wells refers to vertical wells only.

# PERMIAN BASIN – FAIRWAY ACTIVITY

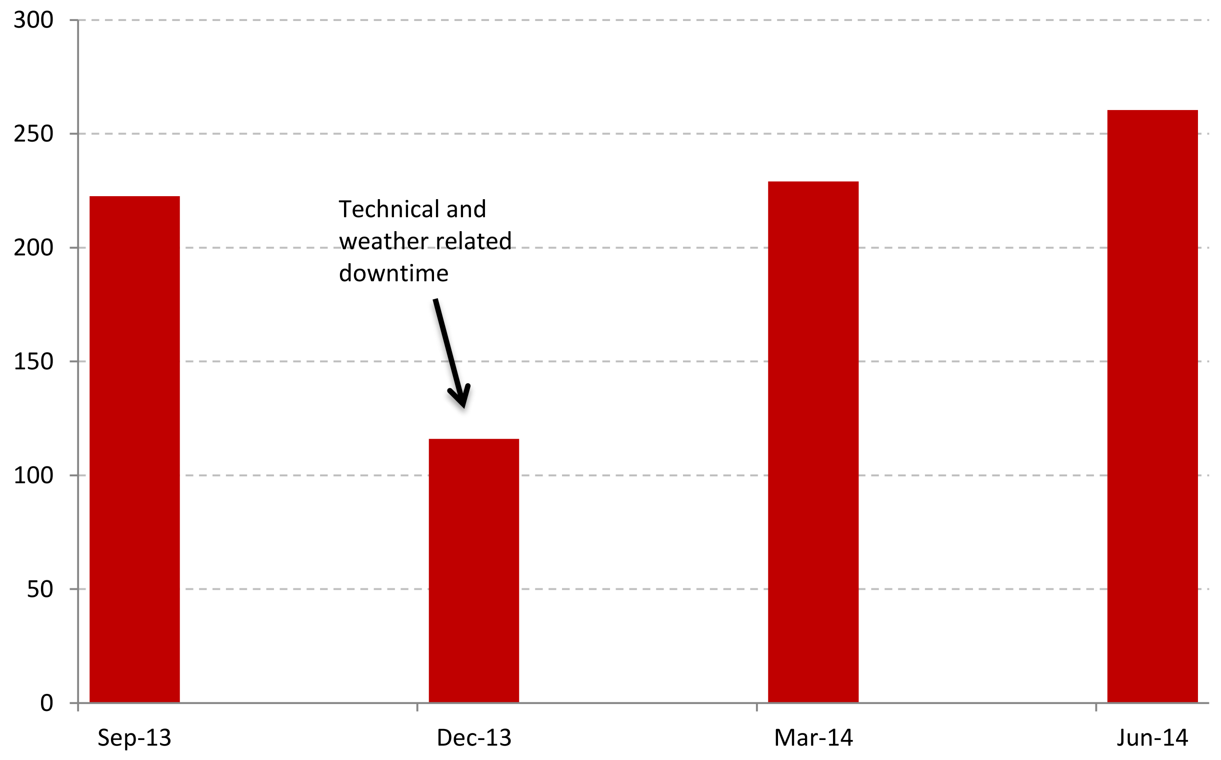
The accelerated pace of drilling is starting to show through increasing production figures.

## Fairway Project Planned Activity 2014[1]

| | |
|---|---|
| Q1 2014 | ✓ Wagga Wagga #1 online<br>✓ Sydney #2 online<br>✓ BOA 12 #3 online<br>✓ BOA North #4 awaiting stimulation |
| Q2 2014 | ✓ Wagga Wagga #2 completed<br>✓ Homar #1 completed<br>✓ Ballarat #1 awaiting stimulation |
| Q3 2014 | ▪ BOA North #5 drilling<br>▪ Bunbury #1<br>▪ Taree #1 |
| Q4 2014 | ▪ Ballarat #2<br>▪ Darwin #4 |

Target has a 10 well CY14 drilling program

## Fairway Project Gross Quarterly Production FY14 (BOEPD)




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

# PERMIAN BASIN – FAIRWAY PRODUCTION GROWTH

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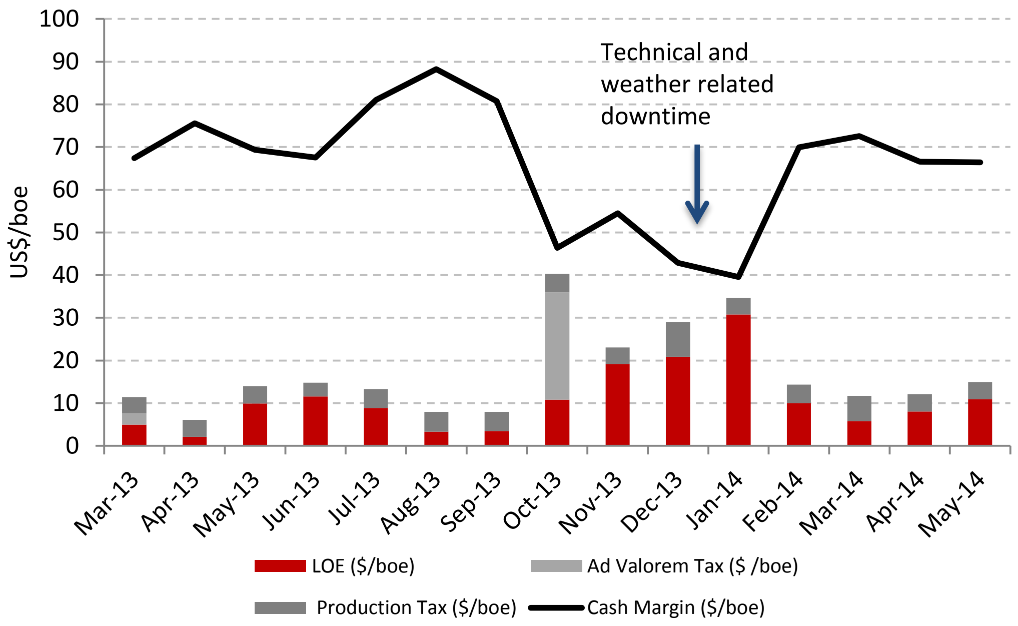
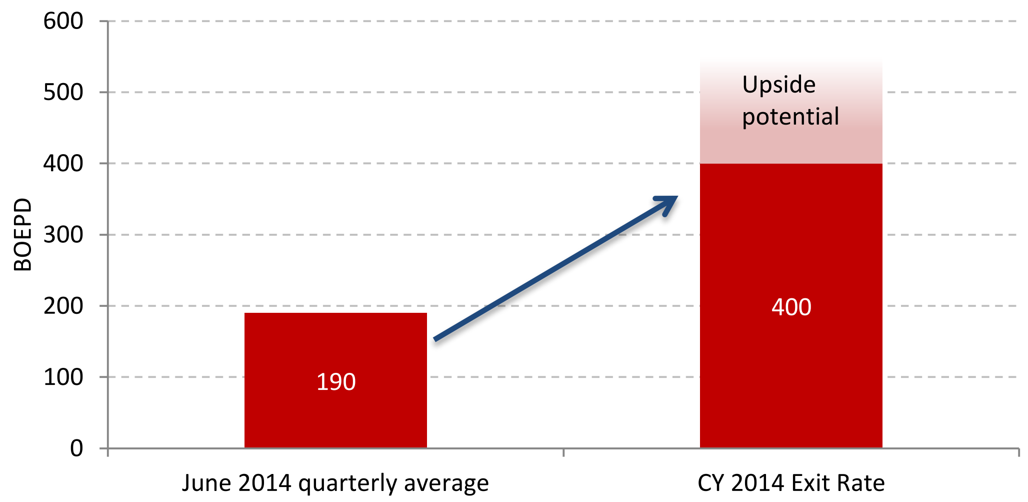
Cash margins are strong at Fairway and production is estimated to rise c.110% by the end of 2014.

## Lease Operating Expenses, Taxes and Cash Margins ($/boe)




## Estimated Average Daily Net Production[1,2]




Notes:
1. Production estimates are net to Target's working interest but prior to royalty payments to landowners. June 2014 quarterly average boepd includes a period prior to the sale of an interest in Fairway to Victory Energy Inc., where Target held a c.60% WI in Fairway. Target's current Fairway WI is c.50%.
2. Target internal estimates. CY14 average net daily production estimates are based on: 10 more wells being drilled in the Fairway project, a mid case type curve for all Fairway wells.

# PERMIAN BASIN – SHALE PLAYS DRIVING GROWTH

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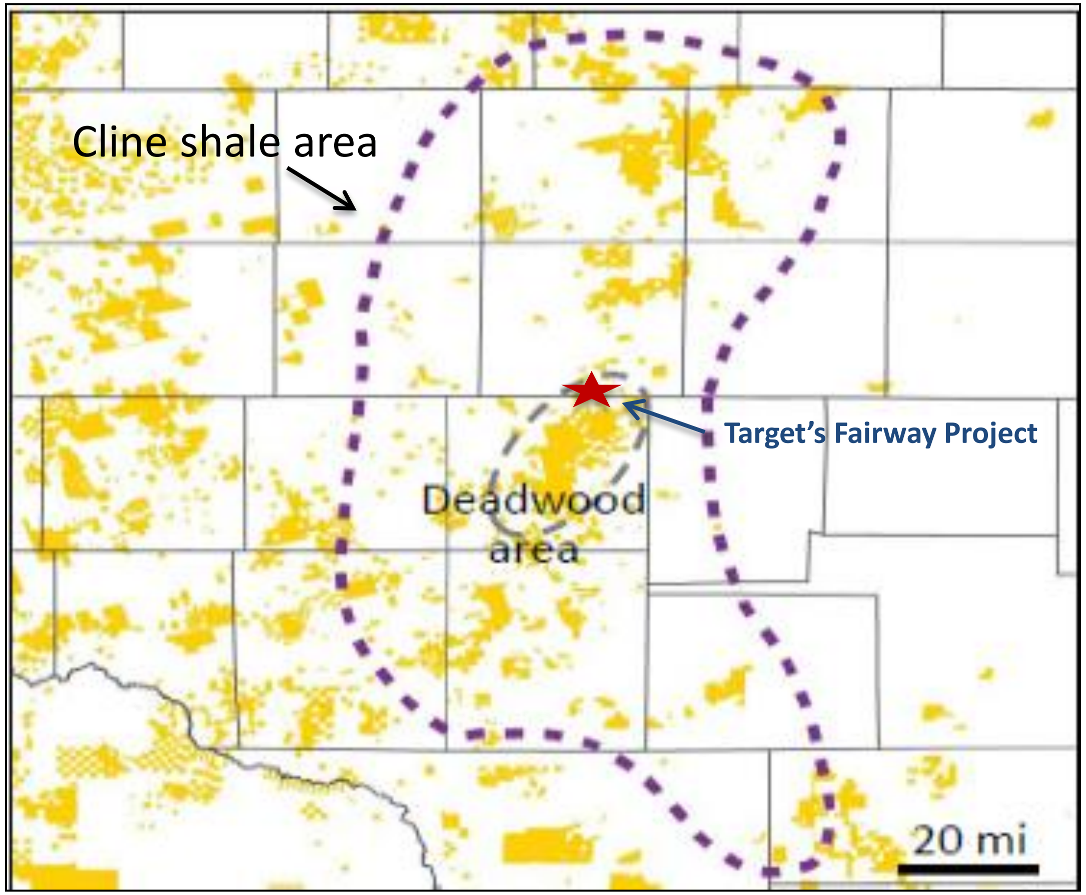
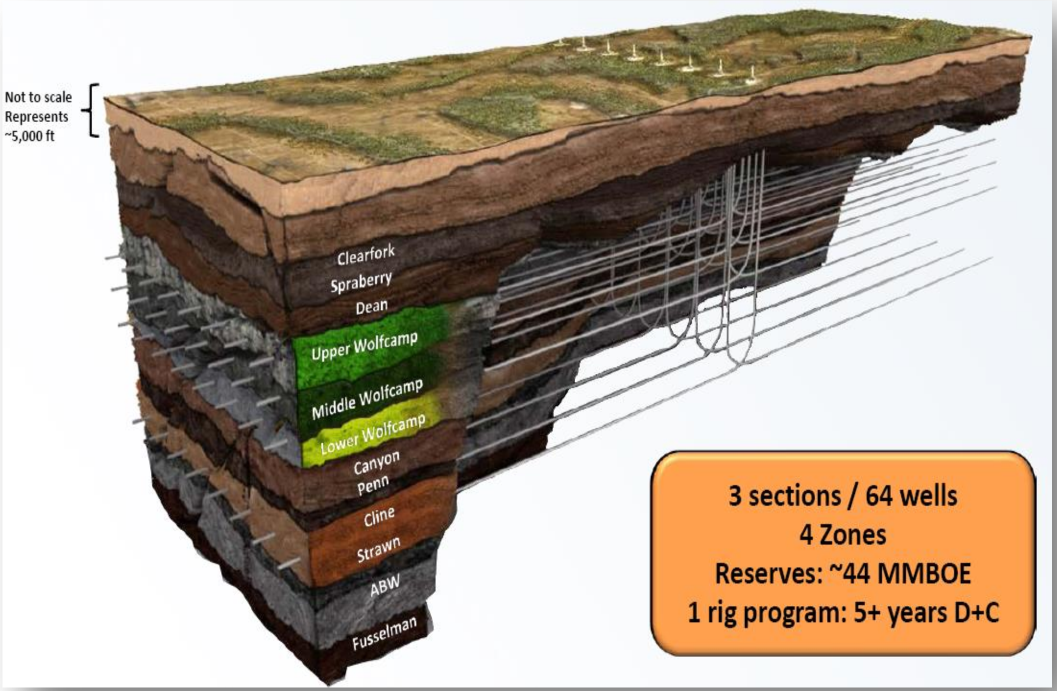
Fairway is positioned in centre of two active shale plays.

### Map of Apache's Permian Basin Interests[1]




Apache's leasehold

### Execution - Pad Drilling Example (courtesy Laredo Petroleum) [2]




Notes:
1. Apache Energy Corporation
2. Reserves estimate shown is derived by Laredo and is indicative of results that may be achieved from a 64 well program on their lease-holdings. Target has not made any assessment of horizontal drilling potential in it's Fairway project.

# OTHER ASSETS - EAST CHALKLEY FIELD

Partners plan to increase oil recovery through a waterflood.

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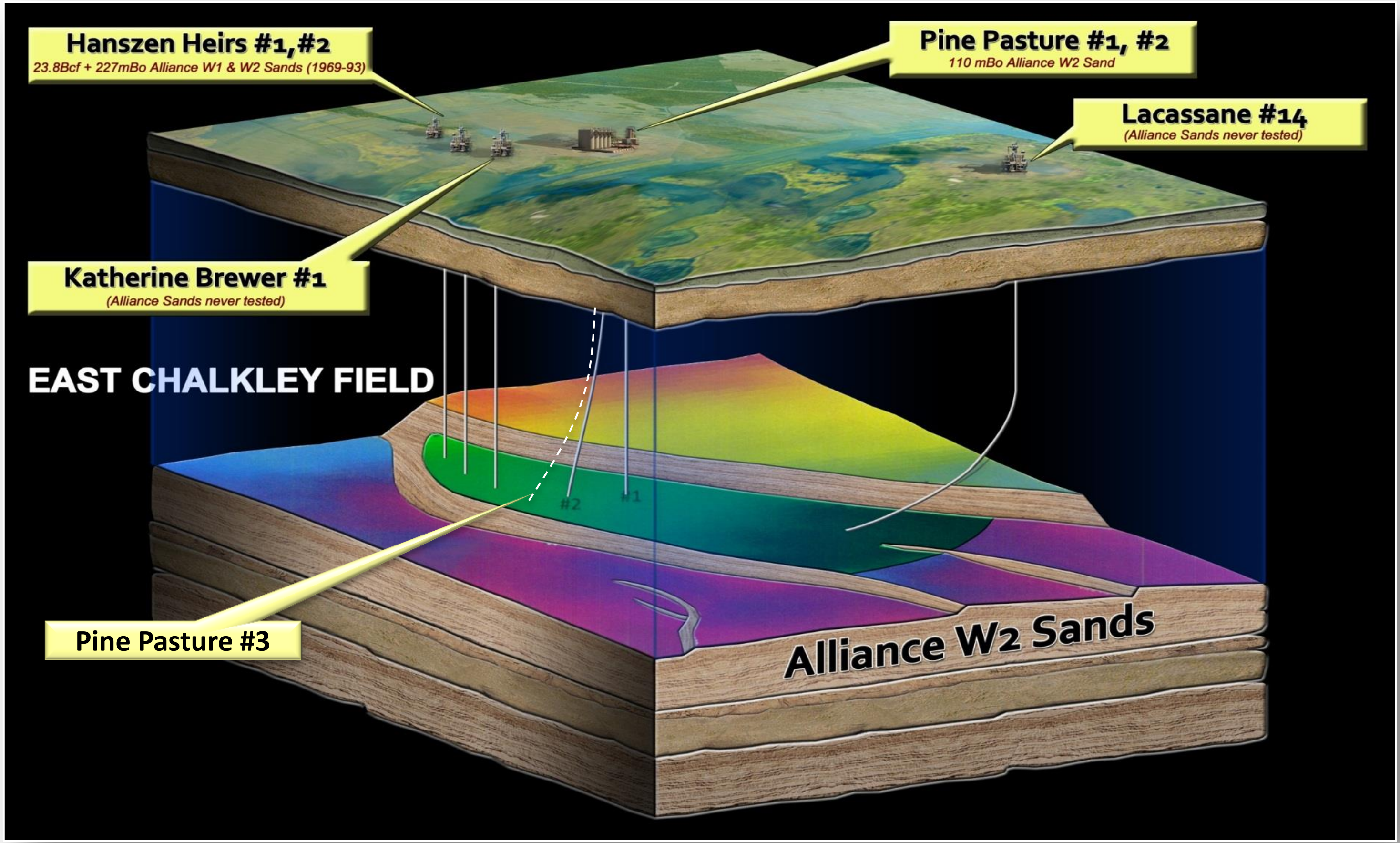
| | |
|---|---|
| Acres Held | ▪ 714 gross / 250 net |
| Working Interest | ▪ 35% |
| Operator | ▪ Magnum Hunter Resources |
| Gross Production | ▪ 20 boepd (1 well) |
| Net Production[1] | ▪ 7 boepd |
| Net Reserves[2] | ▪ 1P Reserves: 53.3mboe<br>▪ 2P Reserves: 53.3mboe<br>▪ 3P Reserves: 86.1mboe<br>▪ 3C Resources: 855.2mbo |
| Estimated well capex | ▪ US$3.0m per deviated well (drilled and completed) |
| Work Program | ▪ PP#3 workover<br>▪ PP#1 workover<br>▪ Potential for waterflood |
| Comments | ▪ Potential to drill additional producing wells to maximise recovery |

Schematic of the East Chalkley Field, Cameron Parish




Notes:
1. Average daily production over the June 2014 quarter. Target's wells were off stream for part of the quarter for a work over. Net production is relative to Target's working interest and is before royalties
2. Reserves as at 30 June 2013. A full list of disclosures and risks related to reserves is detailed in ASX release on 27 August 2013. See Note 6 on page 3 of this presentation for additional disclosures relating to reserves.

# RESERVES & RESOURCES

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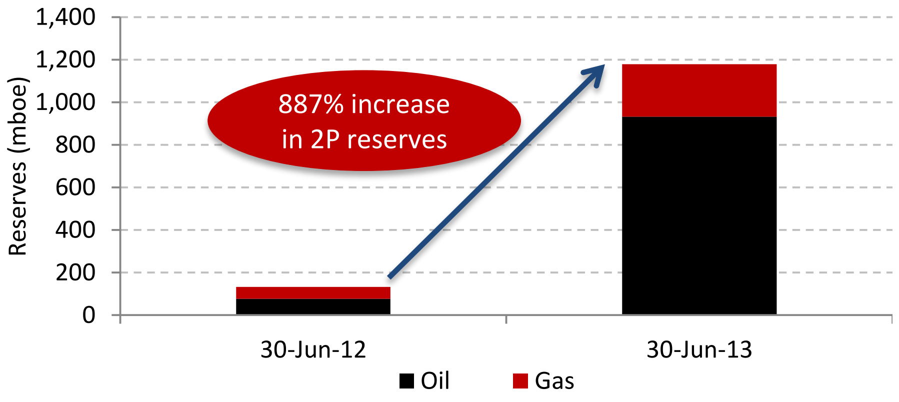
## Reserves assessment at Fairway has increased Target's 2P reserves by 887%. Oil constitutes 79% of 2P reserves.

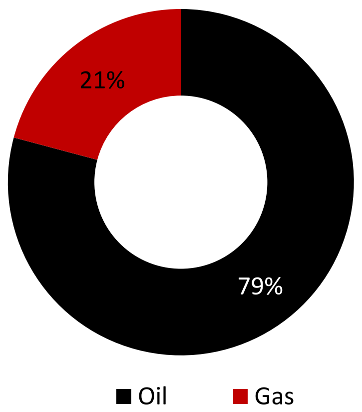
### Target's Net Reserve & Resource Position[1]

| Category | Net Reserves & Resources | | Barrels of Oil Equivalent |
|---|---|---|---|
| | Oil (mbbls) | Gas (mmscf) | BOE (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** |

### Growth in 2P Reserves




### Composition of 2P Reserves




Notes:

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## III. CORPORATE


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*Wellhead at East Chalkley*

# CASH FLOWS

Production and cash flows are expected to grow strongly in the second half of CY14.

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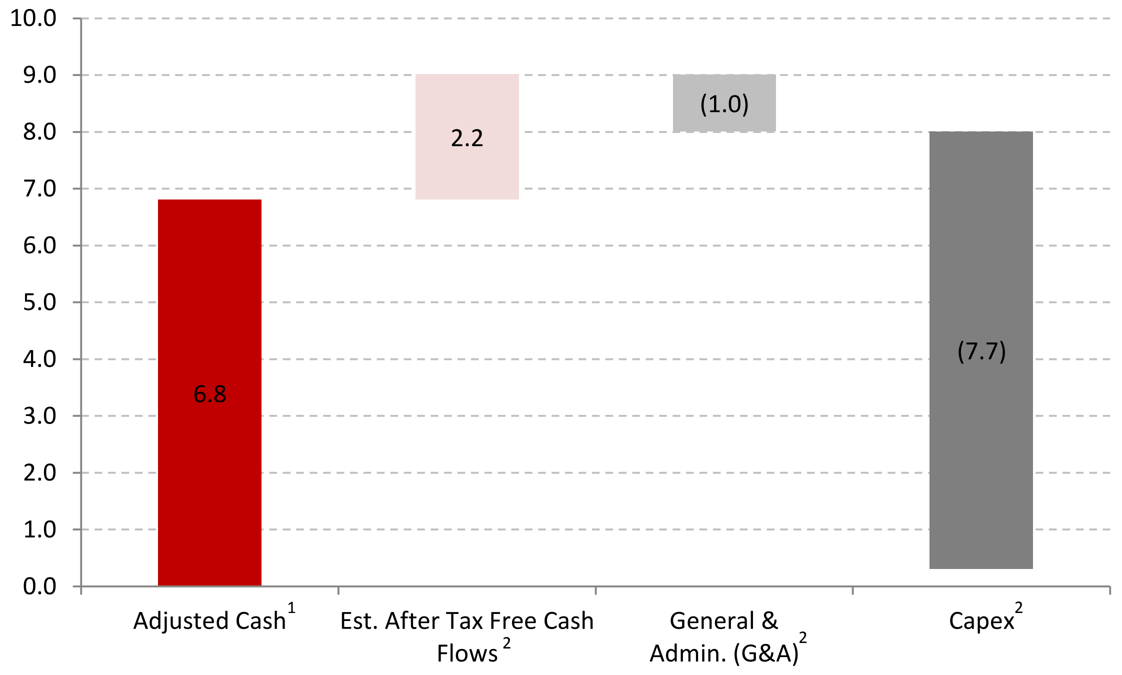
## Comments

- **Operating cash flows:** expected to rise materially as new wells are placed on stream
- **Lending facility:** Target has made substantial progress on negotiating a reserve based lending (RBL) facility and there is potential for a RBL facility to provide an additional source of liquidity in the second half of 2014
- **G&A costs:** very modest cost base covered by after tax free cash flows
- **Alignment:** low salary costs (G&A costs) and high share ownership of Management and Directors creates alignment with shareholders

- **By end CY14 Target expects to have 17 wells in production at Fairway**
- **Production target is approx. 500 boepd net with potential net cash flows over US$0.5m /month**

## Projected Cashflow Waterfall, June to December 2014 (US$m)




Notes:
1. Cash as at 30/6/2014 adjusted for proceeds expected to be received by 8/8/14 from the sale of a 10% WI in Fairway to Victory Energy. Cash has been converted to USD at AUD:USD 0.93
2. Target internal estimates using assumptions on page 22)

# SUMMARY

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- Production growth in the Permian Basin is expected to surpass all other US onshore basins – Target Energy is one of very few Australian listed companies that has an established and growing foothold in this prolific basin
- Ten-well Fairway drilling program, 150% increase in drilling program over 2013, which can be expected to drive material increases in production, cash flows and potentially reserves
- Target will continue to evaluate new prospects and opportunities for expanding its oil and gas portfolio in the Permian Basin and Gulf Coast

# DEFINED TERMS, ASSUMPTIONS AND RISKS

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DEFINED TERMS
- "$" or "US$" means United States (US) dollars, unless otherwise stated.
- "B" or "b" prefix means billion
- "bbl/s" means barrel/ s
- "bopd" or "boepd" means barrels of oil per day and barrels of oil equivalent per day, respectively
- "boe" means barrels of oil equivalent. Target reports boe using a gas to oil conversion based on equivalent thermal energy , i.e. 6000 cubic feet of gas = 1 barrel of oil
- "IP" or "IP rate" means the initial production rate
- "IRR" is the internal rate of return
- "EUR" means estimated ultimate recovery – the recoverable hydrocarbons over a well's producing life
- "M" or "m" prefix means thousand
- "mcfgpd" means thousand cubic feet of gas per day
- "MM" or "mm" prefix means million
- "NGL" means natural gas liquids.
- "NRI" means net revenue interest (after deduction of royalties)
- "pd" or "/d" suffix means per day
- "PV10" or "NPV10" means, unless otherwise stated, the net present value of future net revenue, after deductions for operating and capital expenses, production taxes and ad valorem taxes, but before corporate income tax and corporate overheads, using a real, pre-tax discount rate of 10%.
- "scf" means standard cubic feet
- "WI" means working interest within leases

ASSUMPTIONS FOR WELL ECONOMICS
- Type curves are estimated using data from Target's existing producing wells and offset wells. The type curves represent what Target believes to be average type curves and are not representative of the best or worst type curves.
- Fusselman type curves assume the wells are placed on pump and exhibit a low rate of decline before water break through. This profile has been exhibited by offset wells drilled by Target's operator.
- Oil prices and gas prices are based on a the WTI Crude Oil Benchmark and the Henry Hub Gas Benchmark. Pricing adjustments are made to these benchmark prices to account for quality, transportation fees, marketing bonuses and regional price differentials. Three different oil prices scenarios have been presented. In each case the oil price is expected to be flat over the duration of the well's producing life at either $80/bbl, $90/bbl or $100/bbl. Benchmark gas prices are estimated as being flat at $4.0/mscf under all scenarios.
- Total capex is estimated at $1.7m for a Fusselman well, $2.1m for a Wolfberry well and $2.4m for a Wolfman well. Opex is assumed to be $5,000/well/month.
- Other economic parameters including, but not limited to: percentage of oil production, royalties, production taxes and working capital movements are based on Target's current operating parameters.

ASSUMPTIONS FOR EAST CHALKLEY FIELD NPV (10%)
- Type curves are estimated using data from Target's existing producing wells and offset wells .
- A flat oil and gas price of $90/bbl and $4/mscf has been used for the East Chalkley Field NPV (10%).
- The 'most likely' case assumes drilling 4 producing wells and 2 injectors over 2 years. The 'upside' case assumes drilling 7 producing wells and 3 injectors over 3 years.
- Well capex is estimated at $3.0m for a deviated well. Opex is assumed to be $7,500/well/month.
- Other economic parameters including, but not limited to: percentage of oil production, royalties, production taxes and working capital movements are based on Target's current operating parameters.

KEY RISKS ASSOCIATED WITH WELL ECONOMICS AND EAST CHALKLEY FIELD NPV (10%)
- Benchmark oil and gas prices may change.
- Well production performance may differ from estimated well performance.
- Target's current operating parameters (listed above) may not be representative of future operating parameters .
- A number of factors could cause actual results to differ materially from the projections, please see page 2 for disclosure on forward looking statements.

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