

Annual Report 2016

Corporate Philosophy

Target Energy Limited was established in 2006 with the simple objective of creating a successful publicly listed petroleum exploration and production company.

We chose the United States as our principal area of operations due to the attractive operating environment in that country. In particular we focused on regions with high levels of activity, success and infrastructure. We then selected reputable operators who had demonstrated track records of success and selected the best available prospects from their inventories to comprise our portfolio.

This strategy paid off almost immediately with Target Energy becoming an oil and gas producer in the United States within 6 months of listing on the ASX.

More recently, the Company has expanded its focus to include unconventional and resource plays, such as those in the prolific Permian Basin in West Texas. The Company now has an established presence in this sector.

Target will continue to actively source and drill a range of prospect types and will seek to expand its areas of operations as opportunities become available.

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Corporate Directory

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OTCQX International: **TEXQY**

Chairman's Report

Dear Shareholder,

Despite another very difficult year for our industry arising from sustained low and volatile commodity prices, your Company has continued to successfully navigate these turbulent conditions.

We are making significant progress in restoring our balance sheet through an asset sale program and a continual focus on streamlining and reducing costs.

We were pleased to advise shareholders earlier this year that our 30 June 2016 reserves audit increased our net Proven reserves to 2.868 million barrels of oil equivalent - a 620% increase over the 2015 audit. This was a strong affirmation of the quality of our Permian Basin assets and in turn this has helped underpin the divestment program of our interests in our "Fairway" project.

Earlier this year, Target agreed to combine its Fairway interests with additional local properties held by the operator. This was done to create a larger sale package of Permian Basin assets, which would attract a wider range of potential buyers. Bids were received for the package in early October and at the time of writing, the Company and its partners are progressing their analysis of the bids prior to entering into further discussions with a potential buyer. We are hopeful that the Company will be able to announce a successful sale in the near future.

It is anticipated that a successful sale will allow full repayment of all the Company's Convertible Notes. In that case, Company will then take the opportunity to review its position and determine how best to grow shareholder value going forward. This will be undertaken in consultation with shareholders.

In challenging times such as these, the Company particularly appreciates the ongoing support it has received from shareholders. We are particularly grateful to noteholders who have worked with us to provide the Company with more flexibility in managing its obligations.

As always, my thanks and appreciation go to Managing Director, Laurence Roe, my fellow Board Members and officers for their commitment and effort over this period. I also wish, again, to acknowledge the support and loyalty of both noteholders and shareholders.

Christopher Rowe

Chairman

Corporate Overview

The twelve months to 30 June 2016 have seen the continuation of very strong headwinds both for the petroleum industry in general and for your Company in particular, as the collapse of oil prices extended throughout the latter part of 2015 and into early 2016, with West Texas Intermediate (WTI) spot prices reaching a nadir of US\$26.19 per barrel in February.

Since then we have seen some recovery with WTI prices peaking at a more respectable US\$51.23/barrel in early June and since remaining in a US\$45 - \$50/barrel range. More broadly, all signs point to a global re-balancing of supply and demand occurring in 2017, after which there is an opportunity for sustained price recovery as demand growth continues and is likely to outstrip supply - most oil producing nations, both in and out of OPEC, are already producing at near full capacity and are unlikely to have any meaningful additional production to meet any ongoing demand growth. This lack of capacity combined with the destruction of global exploration programs in the last couple of years ensures that it will be some time before global supply can materially increase. Ironically, the sector that is going to be best placed to reap the benefits of the price recovery will be the American shale producers and in particular, those in the prolific Permian Basin.

On a positive note, your Company was pleased to record a 620% year on year increase in 3P reserves as a result of its 30 June 2016 Reserves update. The Reserves report assessed Target's proven reserves at 2.87 million barrels of oil equivalent. This was valued at \$17.7 million (US\$13.372 million), calculated based on the present value of future net income discounted at 10%pa using an oil price of US\$55.14/barrel and US\$2.68 to \$4.21/MCF for gas and an exchange rate of 0.75 USD: 1.00 AUD.

Otherwise throughout this period, your Company has continued to maintain a steady course. It has continued to reduce operational and administrative expenditure where possible, divested minor assets and has restarted its divestment program for its primary asset, the Fairway project in the Permian Basin.

The Company sold its interests in the Merta #1 well and leases in October 2015. It also sold its interests in the Homar and Robb leases in the Fairway project, including the Homar #1 well, in late 2015 and disposed of its interests in the Section 28 project effective on 1 January 2016.

The balance of the Fairway assets were packaged up for divestment in early 2016, but were later incorporated into a larger sale package that included all assets held by Trilogy Operating, Inc, the operator of Fairway. It was considered prudent to include Fairway within that sale as potential buyers tend typically to favour larger packages of wells and leases.

In keeping with the Company's focus on cost reduction, no new wells were drilled in the 12 months to 30 June 2016.

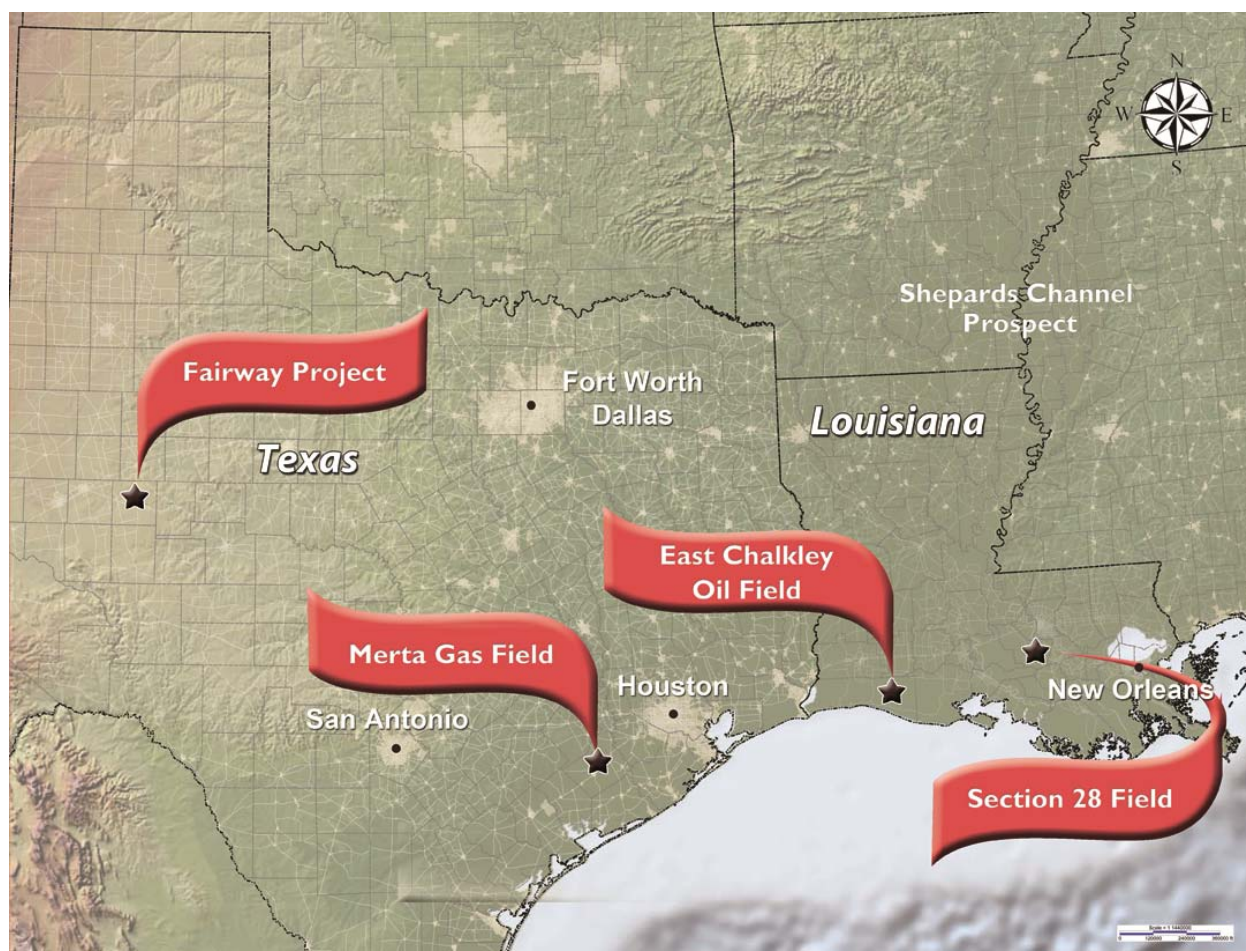
The Company's legal action in Harris County, Texas against Aurora Energy Partners and Victory Energy - associated with the failure of Aurora Energy Partners to complete the Fairway transaction in September 2014 - also continues with the matter presently scheduled to go to a jury trial in February 2017.

Throughout the year, as the Company has dealt with the numerous and ongoing challenges of this low-price environment, it has done so with the support of shareholders and Noteholders. In particular, the Company acknowledges the Noteholders support of the sale of the Merta well and Homar / Robb leases last year and more recently the agreement to allow the Company to defer interest payments. I also wish to acknowledge the direct financial support provided to the Company by its directors and officers.

Laurence Roe

Managing Director

Project Review



Fairway Project - Howard & Glasscock Counties, Texas

Target Energy 33.75% - 60% Working Interest

The Fairway project comprises 2,964 gross acres (net 1,487 acres to Target), with the Company holding working interests ranging from 33.75% to 60% (average 50.2%). The primary reduction in lease-holdings in the reporting period was due to the lapse of the leases at the Bunbury prospect and the sale of the Homar and Robb leases.

While ongoing maintenance of wells continued, no new drilling was undertaken during the reporting period. In the absence of new drilling or workovers, production has eased from 160 BOEPD in July 2015 to 93 BOEPD in June 2016.

During the reporting period, the Company's working interests in the BOA North #5, Ballarat 185 #1 and Wagga Wagga #2 wells and leases increased by approximately 10% following the reallocation of Aurora Energy Partners' former interests in those properties.

On 31 December 2015, the Company, through TELA Garwood Limited LP (a wholly-owned subsidiary) completed a sale of its interests in the Homar well and associated leases. TELA Garwood Limited LP held a 55.555556% Working Interest (WI) in the Homar #1 well and associated 100 acre tract and a 60% WI in the 160 acre Homar (Robb) Tract (the "Robb Tract").

A cash offer was received for these interests along with a provision to pay additional consideration for those leases in the Robb Tract which the Operator could, prior to 1 April 2016, obtain an 18 month extension to the primary term of the lease. Approval was secured for the sale from the Company's Convertible Noteholders on 29 December 2015. The sale closed on 31 December 2015. The net total received by Target was US\$747,555 of which US\$497,555 was immediately applied to amounts outstanding to the operator and the balance of proceeds applied to the Company's general working capital. The Company subsequently received an additional US\$234,000 from the sale of leases in the "Robb" tract; all of which were applied to amounts outstanding to the operator.

Plans to divest the balance of the Fairway properties were re-activated in early 2015 with CanaccordGenuity appointed as advisor to the process. Bids received by the initial bidding deadline of October 7 2016 were deemed unsuitable and the bidding process extended to allow the solicitation of additional offers.

Following payout, Apache Energy exercised its rights as a non-drilling co-tenant to back-in to the Sydney #1 and #2 wells. Target now has a 43.125% working interest (WI) in the Sydney #1 well and a 33.75% WI in the Sydney #2 well. The Company's working interest in the balance of the Sydney leases remains unchanged, but future drilling in those leases will be subject to Apache's rights to back-in after the wells pay out.

The Company and the Fairway Project operator, Trilogy Operating, Inc, have previously agreed that a transfer of a 6.43% interest in the Sydney #2 lease to the Company will provide full settlement of any re-allocation that may arise in relation to the Sydney leases. As a result, the Company expects its working interest in the Sydney #1 and #2 wells to increase to approximately 49.55% and 40.18% respectively.

On June 30, 2014, the Company completed a purchase and sale agreement ("Agreement") to sell an undivided 10% working interest in its Fairway Project to Aurora Energy Partners ("Aurora"). The transaction was structured in two closings, the first of which occurred on June 30, 2014. The Second Closing for the balance was originally scheduled for July 31, 2014. Aurora failed to make the requisite payment for the Second Closing and efforts to address the matter did not yield a successful resolution. In the event the Company receives the payment for the second tranche of the Agreement under the same terms of the original Agreement, the Company would recognize an additional gain on the sale of up to \$2,600,849 (US\$1,990,950); but management believes it is doubtful whether the Company will be paid by Aurora for the Second Closing properties. The Company commenced legal action against Aurora and its general partner Victory Energy in 2015; a jury trial is presently scheduled for February 2017 in Harris County, Texas.

East Chalkley Oil Field - Cameron Parish, Louisiana

Target Energy 35% Working Interest

The East Chalkley project is an oil field appraisal and development program, approximately 33kms south-east of the town of Lake Charles in Cameron Parish, Louisiana. The oil accumulation, on the east flank of the Chalkley Field, is a previously unidentified down-dip oil leg associated with the gas field. Target participated in the successful drilling of the Pine Pasture #2 well in 2008 and the drilling of Pine Pasture #3 in 2013.

The field is presently shut-in, with the operator (Magnum Hunter Resources) advancing plans to bring production back on line prior to mid-January 2017.

Production

Summary

Table 1 summarises Target's production for the 2015-2016 year and Figure 1 shows the monthly production in Barrels of Oil equivalent for the same period.

Project	TEX Working Interest	Production 01/07/15 to 30/06/16 (Gross)		Production 01/07/15 to 30/06/16 (Net to TEX WI)		Comment
		Oil (Bbl)	Gas (mcf)	Oil (Bbl)	Gas (mcf)	
Section 28	25%	249	17,120	62	4,280	Sold 1/01/2016
East Chalkley	35%	23	228	8	80	Shut-in
Merta	25%	7	13,248	2	3,312	Sold 1/10/2015
Fairway	35%-60%	31,289	76,346	15,646	39,393	Producing
Total		31,569	106,942	15,718	47,065	

Table 1: Target Energy 2014-2015 Production Summary

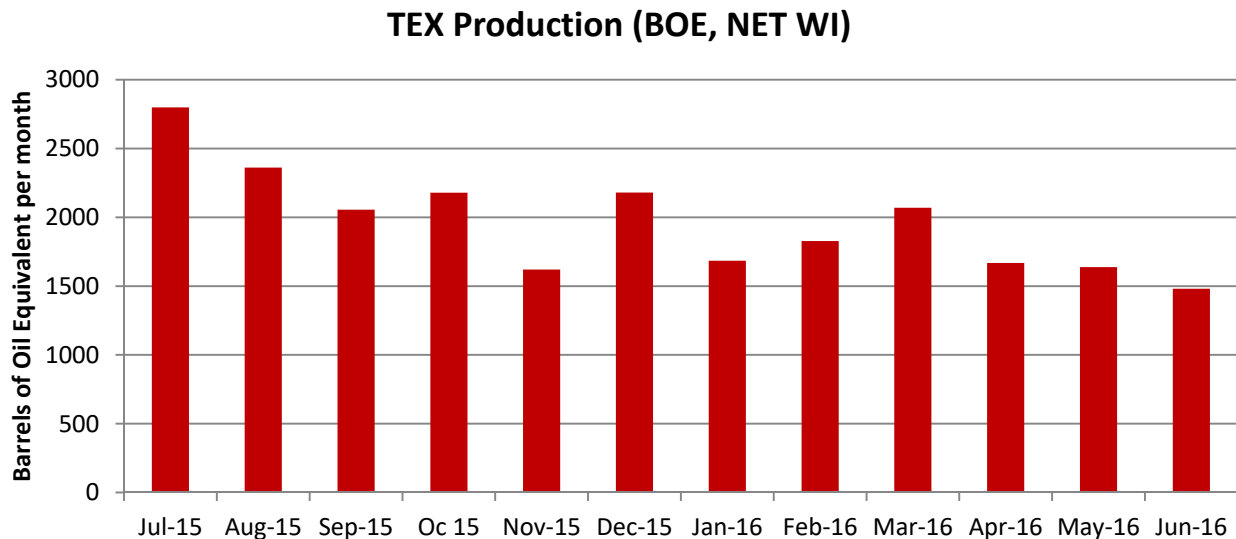


Figure 1: Target Energy Monthly Production (BOE)

Fairway Project - Howard & Glasscock Counties, Texas

Target Energy: 33.75% - 60% working interest

Fourteen wells were in production for all of the financial year; one additional well (Homar #1) was in production from 1 July 2015 to 30 October 2015, at which time it was sold.

Production was primarily combined from the Wolfcamp, Atoka, Strawn, Mississippian and Devonian sections, with a number of wells producing oil and gas just from the Fusselman Carbonate. As noted previously, a number of the wells have substantial pay sections that are presently behind pipe (i.e. yet to be completed).

At 30 June 2016, gross cumulative production at Fairway had totalled 405.2 MMCFG plus 211,939 barrels of oil, with gross daily production of approximately 93 BOEPD.

Merta Gas Field - Wharton County, Texas

Target Energy: 25% working interest

The Merta #1 well was sold on 1 October 2015. At the time of the sale, the well had produced 472.6 MMCFG plus 5,596 barrels of condensate.

Section 28 Project - St Martin Parish, Louisiana

Target Energy: 25% working interest

SML #A-1, SML #A-2, SML #A-3

The producing wells were considered to be at their effective economic limits and were divested on 1 January 2016. At the time of divestment, total gross production of the three wells was 2,510.3 MMCFG plus 92,128 barrels of oil and condensate.

East Chalkley Oil Field - Cameron Parish, Louisiana

Target Energy: 35% working interest

At 30 June 2016, the Pine Pasture #1 well had produced 32,713 barrels of oil (including 7,803 barrels of oil since Target purchased an interest in the well). The well remains shut-in following repairs to the production tubing in December 2014. Prior to being shut-in, the well was producing approximately 12-15 BOPD with 145 BWPD. Refer to Figure 5 for the field location.

At 30 June 2016, the Pine Pasture #2 well had produced 106,700 barrels of oil. The well was producing approximately 32 BOPD with 300 BWPD prior to being shut in in June 2014. The well requires repairs to casing or the insertion of a liner. The timing of this work is subject to an economic review.

At 30 June 2016, the Pine Pasture #3 well had produced 1,000 barrels of oil. The well is shut-in while the operator completes plans to bring the well back online.

Reserves

Summary

Target Energy's net Reserves and Resources are summarised below (Table 2). The net reserves were independently audited by Lee Engineering (Fairway) and T.J.Smith and Company (East Chalkley). Contingent Resources for East Chalkley were previously assessed by Risc Operations Pty Ltd.

The effective dates of the audits were 30 June 2016 (Fairway) and 30 June 2015 (East Chalkley). The 2015 audit figures for East Chalkley have remained unchanged in the absence of any production from that field in the 2015/16 year.

Further details are shown in Tables 3 and 4.

2016

Category	Net Reserves & Resources		BO equiv. (Mboe)
	Oil (Mbbbls)	Gas (MMscf)	
Proved Developed Producing (PDP)	36.2	57.3	45.8
Proved Developed Not Producing (PDNP)	298.0	1772.5	593.4
Proved Undeveloped (PUD)	1907.8	1928.6	2229.2
Total Proved Reserves (1P)	2242.0	3758.4	2868.4
Probable	33.5	134.0	55.8
Total Proved & Probable Reserves (2P)	2275.5	3892.4	2924.2
Possible	29.0	115.9	48.3
Total Proved, Probable & Possible Reserves (3P)	2304.5	4008.3	2972.6
Low Estimate Contingent Resources	-	-	-
Best Estimate Contingent Resources	342.4	0.0	342.4
High Estimate Contingent Resources	525.3	0.0	525.3
Total Contingent Resources (3C)	867.7	0.0	867.7
Total Reserves & Resources	3,172.2	4,008.3	3,840.2

Table 2: Target Energy total net Reserves and Resources effective 30 June 2016.

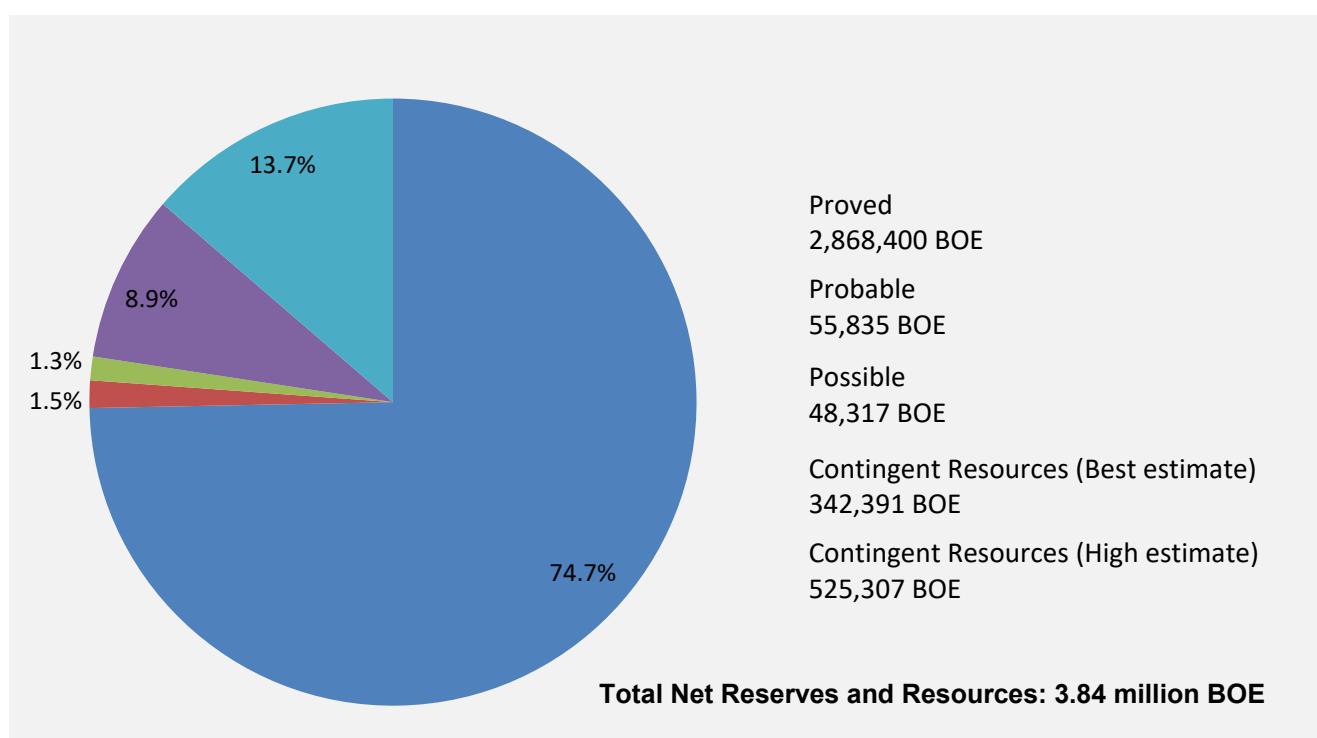


Figure 2: Target Energy net reserves and resources as at 30 June 2016

Fairway Project

Fairway Project Net Reserves	Net Reserves		BO equivalent
	Oil (Mbbbls)	Gas (mmscf)	(Mboe)
Proved Developed Producing	36.2	57.3	45.8
Proved Developed Not Producing	298.0	593.4	593.4
Proved Undeveloped	1,907.8	2,229.2	2,229.2
Total Proved (1P)	2,242.0	2,868.4	2,868.4
Probable	-	-	-
Proved & Probable (2P)	2,242.0	2,868.4	2,868.4
Possible	-	-	-
Proved, Probable & Possible (3P)	2,242.0	2,868.4	2,868.4

Table 3: Fairway audited reserves effective 30 June 2016 by Lee Engineering.

East Chalkley

East Chalkley Net Reserves & Resources	Net Reserves		BO equivalent
	Oil (Mbbbls)	Gas (mmscf)	(Mboe)
Proved Developed Producing (PDP)	0.0	0.0	0.0
Proved Developed Not Producing (PDNP)	0.0	0.0	0.0
Proved Undeveloped (PUD)	0.0	0.0	0.0
Total Proved (1P)	0.0	0.0	0.0
Probable	33.5	134.1	55.9
Proved & Probable (2P)	33.5	134.1	55.9
Possible ²	29.0	115.9	48.3
Proved, Probable & Possible (3P)	62.5	250.0	104.2
Low Estimate Resource	0.0	0.0	0.0
Best Estimate Resource	342.4	0.0	342.4
High Estimate Resource	525.3	0.0	525.3
Low, Best and High Estimate Resources (3C)	867.7	0.0	867.7
Total 3P Reserves and Resources	930.2	250.0	971.9

Table 4: East Chalkley audited reserves effective 30 June 2015 by T.J. Smith and Company; Contingent Resources derived from Independent Technical Specialist's Report on Target Energy Limited's interests in the East Chalkley Field, (August 2012) by Risc Operations Pty Ltd from Risc 2012.

NOTES ON RESERVES & RESOURCES

- Reserves are stated net to Target's working interest and after deductions for royalty payments.
- All reserves and resource estimates were prepared using deterministic methods. All aggregation was performed by arithmetic summation.
- Cautionary note: the aggregate 1P estimate may be a very conservative estimate and the aggregate 3P estimate may be very optimistic due to the portfolio effects of arithmetic summation. Similarly, the aggregate 2C + 3C resource estimate may be very optimistic due to the portfolio effects of arithmetic summation.
- Possible Reserves are those reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of the Proved plus Probable plus Possible (3P) reserves.
- TJSCO did not review the Contingent Resources for the East Chalkley Field. The Contingent Resources are derived from the Independent Technical Specialist's Report on Target Energy Limited's interests in the East Chalkley Field, (August 2012) by Risc Operations Pty Ltd.
- Contingent resources are defined as quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable resources as defined in the SPE-PRMS.
- "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.
- "M" prefix means thousand; "MM" prefix means million; "scf" means standard cubic feet.
- Production quantities are measured at the leases via a sales meter (gas) or in oil storage tanks.

INTERNAL CONTROLS (ASX Listing Rule 5.21.5 Disclosures)

- The reserves estimates undergo an assurance process to ensure they are technically reasonable given the available data and have been prepared according to our reserves and resources process, which includes adherence to the PRMS guidelines. The annual reserves report is reviewed by management with the appropriate technical expertise, including the Managing Director.
- The material presented in this report is based on, and fairly represents, information and supporting documentation prepared by, or under the supervision of, the listed qualified reserves and resources evaluators.

Lease-holdings

Target Energy	Leaseholdings						
	Lease Name	County / Ph	Description	Depth Limits	TEX WI	Gross acres	Net acres
Fairway							
	BOA	Howard	S12 S/2 , Block 33 T-2S, A-1353, T&P RR Survey	None	50.00%	320.0	160.0
	BOA North #4	Howard	S12 N/2 , Block 33 T-2S, A-1353, T&P RR Survey	None	50.00%	160.0	80.0
	BOA North #5	Howard	S12 N/2 , Block 33 T-2S, A-1353, T&P RR Survey	None	55.56%	160.0	88.9
	Darwin N/2	Howard	S44 N/2, Block 33, T-1S, A-1292, T&P RR Survey	None	50.00%	320.0	160.0
	Darwin SW/4	Howard	S44 SE/4, Block 33, T-1S, A-1292, T&P RR Survey	None	60.00%	160.0	96.0
	Ballarat	Glasscock	S 184 and 185, Bl 28, A-815 and A-A483, W&NW Survey	None	55.56%	160.0	88.9
	Taree	Glasscock	W/2 S193, Bl 28, A-815 and A-A483, W&NW Survey	None	60.00%	*320.0	192.0
	Sydney #1	Glasscock	NW/4 S 188 Block 29 A-170 W&NW Survey	None	43.13%	160.0	69.0
	Sydney #2	Glasscock	E/2 S 188 Block 29 A-170 W&NW Survey	None	33.75%	320.0	108.0
	"Section 4"	Howard	S4, Block 32, T-2-S, A-1354 T & P RR Co Survey	None	60.00%	440.0	264.0
	Wagga Wagga #1	Glasscock	NE/4 S221, Block 29, A-496; W&NW RR Co Survey	None	35.00%	160.0	56.0
	Wagga Wagga #2	Glasscock	SE/4 S221, Block 29, A-496; W&NW RR Co Survey	None	38.89%	160.0	62.2
	Ballarat West	Glasscock	part NW/4 of S185, Bl 29, W&NW RR Co. Survey	None	50.00%	123.9	62.0
East Chalkley							
	Unit Agreement: CK W RA SU	Cameron Ph	S11, 13, 14 &15, T12S-R6W	8,000 ft - 10,000 ft	35.00%	714.9	250.2
*subject to completion of lease extensions					Total	3678.8	1732.2

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

Glossary of Technical Terms

Ac.ft , acre/feet	A measure of rock volume equivalent to 7,758 barrels or 1233.49 cubic metres.
APO	After Payout; Payout being the point at which all costs of leasing, exploring, drilling and operating have been recovered from production of a well or wells as defined by contractual agreement.
AVO	Amplitude versus Offset, or the measure of the amplitude of a seismic reflection event for varying angles of incidence from a reflector, i.e., usually a rock interface. This is a seismic evaluation tool that can be diagnostic for lithology and the presence of hydrocarbons. In a Class 3 anomaly, the amplitude can flip from a positive reflection to a negative one as the distance between the seismic source and receivers increase. This is often a good indicator of gas in the Gulf Coast.
Basin	A depression in the earth's surface containing relatively thick deposits of sedimentary rocks.
BC	Barrels of Condensate.
Bcf, BCF	Billion cubic feet or 28.317 million cubic metres. A unit commonly used in quoting volumes of natural gas.
Bcfe, BCFe	Billions of cubic feet equivalent. A measure of a combined volume of gas and liquids, which is determined using the ratio of one barrel of oil, condensate, or natural gas liquids to 6 MCF of natural gas.
BO	Barrels of oil, a unit of measure commonly used in quoting liquid hydrocarbon volumes. 1 barrel = 42 U.S. gallons, 35 imperial gallons (approx), 159 litres (approx).
BOE	Barrels of oil equivalent. A measure of a combined volume of gas and liquids, which is determined using the ratio of one barrel of oil, condensate, or natural gas liquids to 6 MCF of natural gas.
BOPD	Barrels of Oil per day. A measure of the rate of flow of oil.
BPO	Before Payout; Payout being the point at which all costs of leasing, exploring, drilling and operating have been recovered from production of a well or wells as defined by contractual agreement.
BTU	British Thermal Unit. The energy required to raise one pound of water by 1° Fahrenheit. A measure of the richness of natural gas.
BWPD	Barrels of water per day.
Casing	Large-diameter steel pipe lowered into an open borehole and cemented in place.
Completion	The process in which a well is enabled to produce hydrocarbons.
Condensate	A hydrocarbon phase, which separates out from natural gas and condenses into liquids when the hydrocarbons are produced.
DHC	Dry hole cost. The cost of drilling a well in the failure case, i.e. where no additional investment in casing, testing or well completion is incurred.
Dry Hole	A well in which no commercial hydrocarbons were discovered.
Exploration well	A well drilled into a previously undrilled or non-commercial trap to test for the presence of a new hydrocarbon accumulation.
Fault	Any brittle failure of rock layers along which rocks are displaced on one side relative to the other.
Field	A subsurface accumulation of hydrocarbons.
Fold	A bend in the rock strata.
Formation	A formal term used to reference a genetically related rock unit (e.g. the Hackberry Formation).
G & G	Geology and geophysics.
Gas kick	A significant increase in gas detector (Hot Wire) response from an increasing concentration of natural gas in the mud system.
Geology	The study of the earth and the processes affecting its crust.
Geophysics	The study of rock properties and stratigraphy through the use of analytical methods involving various types of data collection and interpretation.
GIP	Gas in place. The volume of natural gas stored in a subsurface accumulation. Differs from recoverable reserves in that some of this gas will not be able to be produced.
GOR	Gas oil ratio, the ratio of produced gas to produced oil.
Henry Hub	Located in Louisiana, the Henry Hub is a major natural gas distribution centre, and is the key focal point of natural gas spot and future trading in the U.S. Henry Hub is a widely quoted index of natural gas prices.
Hydrocarbons	A compound of the elements hydrogen and carbon, in either liquid or gaseous form. Natural gas and petroleum are mixtures of hydrocarbons.

Horizon	A term describing a layer of rock, most typically associated with a seismic reflection.
IP	Initial production (rate).
Lead	An undrilled, and therefore hypothetical, hydrocarbon trap, which requires additional technical or commercial analysis before drilling can be justified.
Lithology	The physical, sedimentary, or mineralogical characteristics of a rock.
MBC	Thousands of barrels of condensate. A measure of condensate flow rates from a producing well.
MBO	Thousands of barrels of oil. A measure of oil flow rates from a producing well.
MCF, mcf	Thousand cubic feet. A widely quoted unit used for natural gas measurement.
MCFD, mcf/d	Thousands of cubic feet per day. A measure of a volume of gas.
md	A millidarcy. A unit of measure permeability, ie the ability of liquids to flow through a porous solid.
Measured Depth (MD)	The length of the wellbore, as if determined by a measuring stick. This measurement can differ from the true vertical depth in deviated or angled wellbores.
MMbbls, mmbbls	Million barrels. A measure of a volume of liquid.
MMBC, mmblc	Millions of barrels of Condensate.
MMBO, mmbo	Millions of barrels of oil.
MMCF, mmcf	Million cubic feet. A widely quoted unit used for natural gas measurement.
MMCFD, mmcf/d	Million cubic feet per day. A measure of gas flow rates from a producing well.
MMCFG, mmcf/g	Million cubic feet of gas. A measure of a volume of gas.
MMCFGD, mmcf/gd	Millions of cubic feet of gas per day. A measure of the rate of flow of gas.
Perforate	To pierce holes through well casing within an oil or gas-bearing formation by means of a perforating gun lowered down the hole and fired electrically from the surface. The perforations permit production from a formation which has been cased off.
Permeability	A measure of the ability of liquids to flow through a porous solid.
Petroleum	(See Hydrocarbons)
Pipeline	A pipe through which any hydrocarbon or its products is delivered to an end user.
Porosity	The percentage of open pore space in a rock.
Possible Reserves	Those Unproved Reserves which analysis of geological and engineering data suggests are less likely to be recoverable than Probable Reserves.
Probable Reserves	Those Unproved Reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable.
Prospect	An undrilled, and therefore hypothetical trap whose technical and commercial uncertainties are sufficiently well understood and is of sufficient size and probability of success to justify drilling.
Proved or Proven Reserves	Those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations.
Recoverable Reserves	That portion of the oil and/or gas in a reservoir that can be removed using currently available techniques.
Reserves	The volume of oil and gas that can be recovered at the surface. Generally used in the context of commerciality.
Reservoir	A porous rock unit in which hydrocarbons occur in an oil field.
Risk	A measure of uncertainty relating to the likelihood of finding hydrocarbons, or, the likelihood that any or all of the individual geological elements required for the accumulation of hydrocarbons is met.
Sandstone	A sedimentary rock composed primarily of sand size grains, usually quartz. A common hydrocarbon reservoir rock.
Seal	An impermeable rock unit that prevents hydrocarbons from escaping from the reservoir.
Seismic reflection	An event observed on seismic data that corresponds to a given rock layer in the subsurface
Sediment	Generally, water borne debris that settles out of suspension.
Sedimentary rock	A type of rock formed by aggregation of sediments.

Shale	A very fine-grained rock often thinly layered. An important seal rock.
Show	An indication while drilling that hydrocarbons are present in the well bore.
Source/source rock	An organic rich rock (typically shale) capable of generating hydrocarbons under certain conditions of temperature and pressure.
Spud	To commence drilling operations.
Stratigraphy	The study of the vertical and horizontal distribution of stratified rocks, with respect to their age, lateral equivalence and environmental deposition.
Structural trap	Generally, a hydrocarbon trap formed by dipping rock layers and/or faults.
Structure	A geological feature usually higher in elevation than the surrounding rock, formed by local deformation of the rock layers.
TCF	Trillion cubic feet or 28.317 billion cubic metres. A unit commonly used in quoting volumes of natural gas.
TD	Total Depth. The final depth reached in drilling the well.
Trap	A structure capable of retaining hydrocarbons.
Trend	A particular direction in which similar geological features are repeated.
TVD	True vertical depth. The vertical distance from a point in the well (usually the current or final depth) to a point at the surface, usually the elevation of the rotary <u>kelly</u> bushing (RKB). The TVD is independent of the actual wellbore path.
Unproved Reserves	Unproved Reserves are based on geological and/or engineering data similar to that used for Proven Reserves but technical, contractual, economic or regulatory uncertainties preclude such reserves being classified as Proven – Unproved Reserves can be classified as Probable Reserves and Possible Reserves.
Working Interest (WI)	Target's percentage interest in a project before royalties and state taxes.



TARGET ENERGY LIMITED

ABN 73 119 160 360

Annual Financial Report

For the year ended
30 June 2016



DIRECTORS' REPORT

Your directors present their report together with the financial statements of the consolidated entity, comprising Target Energy Limited ("Target" or the "Company") and its controlled entities, for the financial year ended 30 June 2016. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire year unless otherwise stated.

Christopher Rowe MA (Non Executive Chairman)

Mr Rowe graduated from Cambridge University in Economics and Law. Mr Rowe practised in the UK and Perth where he consulted to both the oil and gas and hard rock sectors of the resource industry, before becoming the Executive Chairman of Cultus Petroleum N.L. in 1979 where he served until 1990. During his tenure, the company participated in a number of commercial discoveries in Australia, New Zealand and the USA.

Mr Rowe is currently Chairman of ASX listed Northern Star Resources Ltd. He is also the Chairman of Blue Ocean Monitoring Pty Ltd and was the Chairman of fund manager Hawkesbridge Capital Pty Ltd until February 2016.

In addition to his resource-related activities Mr Rowe acted as one of the Counsel Assisting the Royal Commission into "W.A. Inc" and has served on the E.P.A of Western Australia as both a member and as Deputy Chairman.

During the last three years, Mr Rowe has also served as a director of the following listed company:

- Northern Star Resources Limited*

** denotes current directorships*

Laurence Roe B.Sc (Managing Director)

Mr Roe is a petroleum professional with over 35 years experience gained on the industry both in Australian and international projects. He commenced his career with Santos Limited, later taking a senior technical position with Magellan Petroleum Australia Limited, where he was later appointed Exploration Manager. While with Magellan, he had substantial involvement with US and other international projects.

In 1997, Mr Roe left Magellan to start a consulting practice. He has since consulted for numerous Australian explorers, including Santos Limited, Strike Oil Limited, Icon Energy Limited and Hardman Resources Limited. Mr Roe was appointed Exploration Manager for Bounty Oil & Gas NL in 2001, responsible for its portfolio of Australian and international acreage. He was later appointed as Managing Director.

His experience encompasses most Australian sedimentary basins, as well as the USA, New Zealand, Mauritania, Tanzania, Canada, Indonesia, Belize and Argentina.

Mr Roe has no other listed company directorships and has not held any other listed company directorships in the last three years.

Stephen Mann FCA (Non Executive Director)

Stephen is a Fellow of Chartered Accountants of Australia and New Zealand and has more than 30 years experience as a chartered accountant prior to his retirement from private practice in 2003.

During the last three years, Mr Mann has also served as a director of the following listed company:

- Pegasus Metals Limited (resigned 22 August 2014)

Company Secretary

Rowan Caren, B.Com CA

Mr Caren graduated with a Bachelor of Commerce (Accounting) from the University of Western Australia and is a member of Chartered Accountants of Australia and New Zealand. He qualified with PricewaterhouseCoopers and worked for them in Australia and overseas for six years. He has since been directly involved in the exploration industry for a further 19 years, initially with a minerals explorer based in Perth but with operations in South America and Asia, for which he acted as an executive and company secretary. In 2004 he created a specialist company secretarial and advisory consultancy, Dabinett Corporate Pty Ltd. Dabinett Corporate provides financial and corporate services to several listed and unlisted companies involved in the resources sector.

Share Options

Details of unissued ordinary shares under option are as follows:

	<u>Number of options</u>	<u>Exercise price</u>	<u>Expiry date</u>
Listed options	265,759,522	1.2 cents	28 February 2017
Unlisted options	Nil		

Nil (2015: Nil) ordinary shares were issued during the financial year as a result of the exercise of options. There are no unpaid amounts on the shares issued.

Interests in the Shares, Options and Convertible Notes of the Company

The following relevant interests in shares and options of the Company or a related body corporate were held by the directors as at the date of this report:

	<u>Fully Paid Ordinary Shares</u>	<u>Share Options</u>	<u>Convertible Notes</u>
Directors			
Christopher Rowe	78,409,274	29,915,769	6,100,000
Laurence Roe	31,426,987	10,808,110	-
Stephen Mann	79,596,062	26,387,395	-
	<u>189,432,323</u>	<u>67,111,274</u>	<u>6,100,000</u>

Dividends

No dividends have been paid or declared since the start of the financial year and the directors do not recommend the payment of a dividend in respect of the financial year.

Principal Activities

The principal activities of the entities within the consolidated entity during the year were the development and production of and exploration for oil and gas in the United States of America. There have been no significant changes in the nature of those activities during the year other than those described below.

Review of operations

During the year, the Company contracted its development activities to conserve cash as the oil price dropped significantly. The only works carried out were workovers of existing wells to maintain existing production. Production continued from the Fairway wells in Texas however production rates declined as individual productive hydrocarbon horizons were depleted. Cash constraints prevented the Company from developing its asset at a more optimal rate. As a consequence of the Company's asset sales in Howard County and Wharton County, Texas (Homar / Robb leases; Merta #1) and St Martin's Parish, Louisiana (Section 28 Project) along with the natural decline of production in its Fairway assets, Target's share of overall production has decreased by 52.8% from 50,000 BOE in the previous financial year to 23,562 BOE at the financial year end. Target holds a total of 1,487 net acres in the Permian Basin, of which 1,011 acres are held by production.

The Company sought to sell its interests in various properties and was successful in securing sales of the Homar/Robb property at Fairway and the Merta property. The Company sold its interests in the Homar and Robb prospects at Fairway for a total of US\$1.016 million and Merta for US\$44,000.

Production remained suspended at the East Chalkley project in Louisiana, due to technical problems with the Pine Pasture #3 well and corporate activities at the project operator.

The Company's prospects continue to be significantly affected by the downturn in the international oil price which dropped 51% from US\$59 per barrel in June 2015 to US\$29 per barrel in January 2016, recovering to US\$50 per barrel in June 2016.

The Company financed its operations this year through the sale of the oil and gas assets and secured loans provided by directors.

DIRECTORS' REPORT

Operating results for the year

Net loss attributable to equity holders of the Company for the year ended 30 June 2016 was \$8,931,300 (2015: \$25,975,732). Basic loss per share was 0.9 cents (2015: 4.9 cents). The net loss for the current year has been significantly impacted by the loss recorded in impairment of oil and gas properties of \$5,798,298 (2015: \$20,191,786).

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the consolidated entity to the date of this report, not otherwise disclosed in this report.

Significant events after balance date

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years, other than;

- An additional \$30,000 was advanced by an entity of which Mr Rowe is a director and shareholder. The loan was secured by an equal second ranking security over the Company's Fairway project and is repayable on or before 31 March 2017;
- An additional \$20,000 was advanced by an entity of which Mr Mann is a director and shareholder. The loan was secured by an equal second ranking security over the Company's Fairway project and is repayable on or before 31 March 2017;
- An additional \$15,000 was advanced by an entity of which Mr Roe is a director and shareholder. The loan was secured by an equal second ranking security over the Company's Fairway project and is repayable on or before 31 March 2017;
- An amount of \$30,000 was advanced by parties including an entity of which Mr Rowe is a director and shareholder, which advanced \$20,000; and
- A Noteholder meeting was held on 28 September 2016 at which Noteholder approval was given for the Security Trustee to waive any default arising in respect of the Company's non-payment of interest for the quarter's ending 30 September 2016 and 31 December 2016.

Likely developments and expected results

The consolidated entity will continue to seek to divest its projects in Texas and Louisiana. Disclosure of any further information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Therefore, this information has not been presented in this report.

Environmental legislation

The consolidated entity as non-operator is not subject to any significant environmental legislation. In all projects the operator is responsible for ensuring compliance with environmental regulations.

Indemnification and insurance of Directors and Officers

The Company has agreed to indemnify the following current officers of the Group, Mr Rowe, Mr Roe, Mr Mann and Mr Caren, against all liabilities to another person (other than the Company or related body corporate) that may arise from their position as officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the Company or related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses. The total amount of premium paid was \$24,275.

Directors' Meetings

The number of meetings of directors held during the year and the number of meetings attended by each director was as follows:

Director	Directors' Meetings	
	A	B
Christopher Rowe	7	7
Laurence Roe	7	7
Stephen Mann	7	7

A - meetings attended

B - meetings held whilst a director

Proceedings on behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

Auditor Independence and Non-Audit Services

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the financial report. This Independence Declaration is located on page 9 of this report and forms part of this directors' report for the year ended 30 June 2016.

Non-Audit Services

No amounts were paid or payable to the auditor for non-audit services provided during the year.

Remuneration report

This report, which forms part of the directors' report, outlines the remuneration arrangements in place for the key management personnel ("KMP") of the Company for the financial year ended 30 June 2016. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for KMP who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company.

Key Management Personnel

Directors

Christopher Rowe	Non Executive Chairman
Laurence Roe	Managing Director
Stephen Mann	Non Executive Director

The Remuneration Report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration
- B. Details of remuneration for the year ended 30 June 2016
- C. Service agreements
- D. Share-based compensation

A. Principles used to determine the nature and amount of remuneration

Remuneration philosophy

The performance of the consolidated entity depends upon the quality of its directors and executives. To prosper, the consolidated entity must attract, motivate and retain highly skilled directors and executives.

To this end, the consolidated entity embodies the following principles in its compensation framework:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation;
- significant portion of executive compensation 'at risk', dependent upon meeting pre-determined performance benchmarks; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

Remuneration may consist of fixed remuneration and variable remuneration.

Fixed Remuneration

Fixed remuneration is reviewed annually by the Board of Directors. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices.

Variable Remuneration

Each of the directors holds a significant number of shares. The board does not consider it necessary at the present time to take additional steps to link the remuneration of Directors with the creation of shareholder wealth. Given the current structure, there exists a direct link between the creation of shareholder wealth performance and the financial rewards for the directors.

Remuneration Reviews

The Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and all other key management personnel. The Board of Directors assesses the appropriateness of the nature and amount of compensation of key management personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Remuneration structure

In accordance with best practice Corporate Governance, the structure of non-executive director and executive remuneration is separate and distinct. No remuneration consultants were used.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level that provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 19 November 2009 when shareholders approved an aggregate remuneration of \$300,000 per year. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. The compensation of directors for the period ended 30 June 2016 is detailed below in Table B.

Senior manager and executive director remuneration

Objective

The entity aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the entity so as to:

- align the interests of executives with those of shareholders;
- link rewards with the strategic goals and performance of the company; and
- ensure total compensation is competitive by market standards.

Compensation consists of the following key elements:

- fixed compensation;
- variable compensation; and
- long term incentive (LTI).

The proportion of fixed compensation and variable compensation (potential short term and long term incentives) is established for each key management person by the Directors.

Fixed Compensation

Objective

Fixed compensation is reviewed annually by the Directors. The process consists of a review of individual performance, relevant comparative compensation in the market and internally and, where appropriate, external advice on policies and practices.

Structure

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans.

Variable Pay — Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward executives in a manner that aligns this element of compensation with the creation of shareholder wealth. As such LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdle.

Structure

LTI grants to key management personnel are delivered in the form of shares. No LTI grants have been made in the year.

B. Details of remuneration for the year ended 30 June 2016

Directors		Primary benefits		Post employment	Equity	Total	%
		Salary & Fees	Non Monetary Benefits	Superannuation	Options		Performance related
		\$	\$	\$	\$		
Christopher Rowe ¹	2016	70,000	-	-	-	70,000	-
	2015	70,000	-	-	-	70,000	-
Laurence Roe	2016	150,000	-	14,250	-	164,250	-
	2015	303,471	-	28,830	-	332,301	-
Stephen Mann ¹	2016	54,752	-	5,248	-	60,000	-
	2015	55,046	-	5,227	-	60,273	-
Total Directors	2016	274,752	-	19,498	-	294,250	
	2015	428,517	-	34,057	-	462,574	

^{1.} Salary and/or fees have been accrued and not paid during the last 12 months due to cash constraints.

C. Service agreements**Employment Contract**

The Managing Director, Mr Laurence Roe, is employed under contract. The current employment contract expires on 31 December 2016.

The main terms of the employment contract with Mr Roe are as follows:

- Remuneration of \$164,250 pa inclusive of superannuation.
- Either party is able to terminate on 6 months' notice.
- On termination, other than for cause, the Company will be obliged to make a payment equivalent to six months' salary.
- 12 weeks long service leave is due after 7 years of continuous service. Mr Roe has been employed by the Company since October 2006.

D. Share-based compensation

During the financial year there were no options granted as equity compensation benefits under a long-term incentive plan to key management personnel.

E. Compensation options: Granted and vested during the year

No compensation options were granted to key management personnel during the year.

F. Shares issued on Exercise of Compensation Options

No compensation options were exercised by key management personnel during the year.

G. Option holdings of Key Management Personnel - Unlisted

No unlisted options were held by key management personnel during the year.

H. Option holdings of Key Management Personnel – Listed (expiring 28 February 2017)

	Balance at 1 July 2015	Granted as remuneration	Options Issued	Options Exercised	Balance at 30 June 2016
Directors					
Christopher Rowe	29,915,769	-	-	-	29,915,769
Laurence Roe	10,808,110	-	-	-	10,808,110
Stephen Mann	26,387,395	-	-	-	26,387,395
	<u>67,111,274</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,111,274</u>

I. Shareholdings of Key Management Personnel

	Balance at 1 July 2015	Acquired off market	On exercise of Options	Acquired on market	Balance at 30 June 2016
Directors					
Christopher Rowe	78,409,274	-	-	-	78,409,274
Laurence Roe	31,426,987	-	-	-	31,426,987
Stephen Mann	79,596,062	-	-	-	79,596,062
	<u>189,432,323</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>189,432,323</u>

All equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the consolidated entity would have adopted if dealing at arm's length.

J. Convertible Notes held by Key Management Personnel

	Balance at 1 July 2015	Issued	Converted	Repaid	Balance at 30 June 2016
Directors					
Christopher Rowe	6,100,000	-	-	-	6,100,000
Laurence Roe	-	-	-	-	-
Stephen Mann	-	-	-	-	-
	<u>6,100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,100,000</u>

Notes have a 5 cent face value, are each convertible into one ordinary share and have a maturity date of 31 March 2017.

K. Interest Paid or Payable to Key Management Personnel on Convertible Notes and Other Loans

	2016	2015
Directors	\$	\$
Christopher Rowe	49,182	49,750
Stephen Mann	-	4,000
Laurence Roe	-	2,000
	<u>49,182</u>	<u>55,750</u>

L. Loans with Key Management Personnel

No loans have been provided to key management personnel during the year.

An entity of which Mr Rowe is a director and shareholder, provided a loan to the Company of \$30,000 on 29 June 2016. Interest was payable on the loan at 10% per annum. A total of \$Nil interest was accrued on the loan. The loan was secured by an equal second ranking security over the Company's Fairway project and is repayable on or before 31 March 2017. A further \$30,000 was loaned by the entity to the Company subsequent to year end. A further \$20,000 was loaned by another entity of which Mr Rowe is a director and shareholder subsequent to year end.

An entity of which Mr Mann is a director and shareholder, provided a loan to the Company of \$30,000 on 29 June 2016. Interest was payable on the loan at 10% per annum. A total of \$Nil interest was accrued on the loan. The loan was secured by an equal second ranking security over the Company's Fairway project and is repayable on or before 31 March 2017. A further \$20,000 was loaned by the entity to the Company subsequent to year end.

An entity of which Mr Roe is a director and shareholder, provided a loan to the Company of \$20,000 on 29 June 2016. Interest was payable on the loan at 10% per annum. A total of \$Nil interest was accrued on the loan. The loan was secured by an equal second ranking security over the Company's Fairway project and is repayable on or before 31 March 2017. A further \$15,000 was loaned by the entity to the Company subsequent to year end.

M. Other Transactions and balances with Key Management Personnel

An entity, of which Mr. Rowe is a director and shareholder, provided petrophysical consulting services to the Company. The services were provided on arm's length terms for a total of \$Nil (2015: \$19,150).

The Company paid living expenses in relation to the relocation of Mr Roe to the USA including the cost of an apartment in Houston. These expenses totalled \$Nil (2015: \$60,475).

An entity, of which Mr. Roe's spouse is the sole director and shareholder, provided administrative services to the Company. The services were provided on arm's length terms for a total of \$Nil (2015: \$14,003).

N. Amounts payable to Key Management Personnel at year end

An amount of \$86,333 (2015: \$11,166) was payable at year end to an entity, of which Mr. Rowe is a director and shareholder in respect of director's fees.

Interest in respect of convertible notes of \$49,182 (2015: \$15,479) was payable at year end to an entity, of which Mr. Rowe is a director and shareholder.

Directors fees totalling \$70,000 (2015: \$10,045), inclusive of superannuation, were payable at year end to Mr. Mann.

Signed in accordance with a resolution of the directors



Laurence Roe
Managing Director

Perth, 30 September 2016



Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Target Energy Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink, appearing to read 'M R W Ohm'.

Perth, Western Australia
30 September 2016

M R W Ohm
Partner

HLB Mann Judd (WA Partnership) ABN 22 183 232 714
Level 4, 130 Stirling Street Perth WA 8000. PO Box 8124 Perth BC 8848 Telephone +61 (08) 8227 7500. Fax +61 (08) 8227 7533.
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Liability limited by a scheme approved under Professional Standards Legislation

HLB Mann Judd (WA Partnership) is a member of  HLB International, a worldwide organisation of accounting firms and business advisers.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016**

		Consolidated	
	Note	2016	2015
		\$	\$
Continuing operations			
Revenue	2	732,174	2,287,188
Other income	2	1,276,205	649
		<u>2,008,379</u>	<u>2,287,837</u>
Oil and gas production expenses and taxes		(1,684,842)	(1,627,686)
Accounting expense		(54,456)	(63,218)
Audit fees		(129,002)	(146,168)
Consultants		(244,853)	(417,427)
Depreciation expense	7	(29,056)	(51,985)
Directors' fees		(130,000)	(189,982)
Employee benefits expense		(255,961)	(446,259)
Amortisation of convertible note costs		(90,785)	(89,817)
Amortisation of oil and gas properties	7	(316,569)	(2,818,398)
Impairment of oil and gas properties	7	(5,798,298)	(20,191,768)
Loss on disposal of property, plant and equipment		(14,338)	-
Foreign exchange gain/ (loss)		(70)	7,412
Interest expense		(1,582,575)	(1,136,818)
Legal expenses		(374,560)	(393,650)
Listing fees		(39,295)	(90,205)
Office expense		(73,453)	(164,123)
Promotional expenses		(522)	(104,368)
Other expenses		(71,170)	(192,843)
Share registry expense		(10,354)	(36,844)
Travel and accommodation		(39,520)	(109,422)
		<u>(8,931,300)</u>	<u>(25,975,732)</u>
Loss from continuing operations before income tax expense		(8,931,300)	(25,975,732)
Income tax expense	3(a)	-	-
		<u>-</u>	<u>-</u>
Loss from continuing operations after income tax expense		(8,931,300)	(25,975,732)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		178,377	4,843,388
		<u>178,377</u>	<u>4,843,388</u>
Total comprehensive loss		(8,752,923)	(21,132,344)
		<u>(8,752,923)</u>	<u>(21,132,344)</u>
Basic loss per share (cents per share)	4	(0.9)	(4.9)
		<u>(0.9)</u>	<u>(4.9)</u>

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

		Consolidated	
	Note	2016	2015
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	5	87,691	907,178
Trade and other receivables	6	70,330	159,540
Total Current Assets		158,021	1,066,718
NON-CURRENT ASSETS			
Property, plant and equipment	7	871,267	7,016,500
Total Non-Current Assets		871,267	7,016,500
TOTAL ASSETS		1,029,288	8,083,218
CURRENT LIABILITIES			
Trade and other payables	8	2,833,322	2,093,228
Borrowings	9	80,000	-
Provisions	10	83,629	60,465
Convertible notes	11	8,657,296	-
Total Current Liabilities		11,654,247	2,153,693
NON CURRENT LIABILITIES			
Convertible notes	11	-	7,980,948
Total Non Current Liabilities		-	7,980,948
TOTAL LIABILITIES		11,654,247	10,134,641
NET ASSETS		(10,624,959)	(2,051,423)
EQUITY			
Issued capital	12	38,541,914	38,362,527
Reserves	13	6,659,228	6,480,851
Accumulated losses		(55,826,101)	(46,894,801)
TOTAL EQUITY		(10,624,959)	(2,051,423)

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	Consolidated	
		2016 \$	2015 \$
		Inflows/(Outflows)	
Cash Flows from Operating Activities			
Receipts from customers		1,089,045	3,230,586
Payments to suppliers and employees		(3,042,718)	(3,471,362)
Interest received/(paid)		(308,938)	(618,389)
Net cash used in operating activities	5(ii)	(2,262,611)	(859,165)
Cash Flows from Investing Activities			
Refund of security deposit		-	50,000
Proceeds from sale of property, plant and equipment		1,519,181	645,885
Purchase of property, plant and equipment		(345,973)	(11,266,499)
Net cash provided by / (used in) investing		1,173,208	(10,570,614)
Cash Flows from Financing Activities			
Proceeds from borrowings		80,000	3,000,000
Repayment of borrowings		-	-
Proceeds from issue of shares		194,153	5,036,291
Borrowing expenses		-	(5,574)
Share issue expenses		(14,766)	(195,096)
Net cash provided by financing activities		259,387	7,835,621
Net decrease in cash held		(830,016)	(3,594,158)
Cash at the beginning of the financial year		907,178	3,719,166
Effect of exchange rate changes on the balance of cash held in foreign currencies		10,529	782,170
Cash at the end of the financial year	5	87,691	907,178

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016**

Consolidated Group	Consolidated						Total
	Issued Capital	Accumulated Losses	Option Reserve	Share- Based Payments Reserve	Convertible	Foreign	
					Notes - Equity Component Reserve	Currency Translation Reserve	
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2014	33,492,432	(20,919,069)	340,000	263,455	791,407	(94,337)	13,873,888
Shares issued during the year	5,065,191	-	-	-	-	-	5,065,191
Share issue costs	(195,096)	-	-	-	-	-	(195,096)
Equity Component of Convertible Notes issued during the year	-	-	-	-	341,017	-	341,017
Conversion of convertible notes	-	-	-	-	(4,079)	-	(4,079)
Loss for the year	-	(25,975,732)	-	-	-	-	(25,975,732)
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	-	4,843,388	4,843,388
Balance at 30 June 2015	38,362,527	(46,894,801)	340,000	263,455	1,128,345	4,749,051	(2,051,423)
Balance at 1 July 2015	38,362,527	(46,894,801)	340,000	263,455	1,128,345	4,749,051	(2,051,423)
Shares issued during the year	194,153	-	-	-	-	-	194,153
Share issue costs	(14,766)	-	-	-	-	-	(14,766)
Loss for the year	-	(8,931,300)	-	-	-	-	(8,931,300)
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	-	178,377	178,377
Balance at 30 June 2016	38,541,914	(55,826,101)	340,000	263,455	1,128,345	4,927,428	(10,624,959)

The accompanying notes form part of these financial statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

The company is an ASX listed public company, incorporated in Australia and operating in Australia and the United States of America. The principal activities were the exploration for and production of oil and gas in the United States of America.

(b) Adoption of new and revised standards

In the year ended 30 June 2016, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current annual reporting period.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations and, therefore, no material change is necessary to the Group's accounting policies.

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2016. As a result of this review the Directors have determined that there is no material impact, of the new and revised Standards and Interpretations on the Group and, therefore, no change is necessary to the Group's accounting policies.

(c) Statement of Compliance

The financial report was authorised for issue on 30 September 2016.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(d) Basis of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Target Energy Limited as at 30 June 2016 and the results of all subsidiaries for the year then ended. Target Energy Limited and its subsidiaries are referred to in this financial report as the group or the consolidated entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity.

Business combinations have been accounted for using the acquisition method of accounting.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 'Financial Instruments: Recognition and Measurement' or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements (apart from those involving estimations, which are dealt with below), that management has made in the process of applying the consolidated entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Impairment of oil and gas producing assets

Management has considered the existence of any indicators of impairment in relation to its oil and gas producing assets. In making their impairment assessment, management compared the carrying amount of each cash-generating unit to its recoverable amount. Value-in-use was used to determine recoverable amount and this was based upon PV10 discounted cash flows. Based upon this review, a total of \$5,798,298 has been recorded as an impairment expense in the statement of comprehensive income in relation to Fairway, Section 28 and East Chalkley. There has been no change in the way cash-generating units have been identified since the prior period.

The accounting estimate for impairment of oil and gas producing assets has been changed from 1 July 2015 to use the PV10 of risked proved (1P) reserves upon which no further capital expenditure is required as a comparison for impairment purposes. The Group has used the estimate of PV10 of proved and probable (2P) reserves in prior years. During the year, the Board and management decided to change the reserves base for impairment of oil and gas production assets as the consolidated entity does not have a reasonable expectation of raising the funds required to expend on the assets in order to access the other proven and probable reserves. The impact of the change in estimate is to increase the impairment charge and increase the loss after income tax for the financial year by an amount of US\$6,221,400. A reversal of prior impairment would have resulted were it not for the change in estimate. As a result, the carrying value of oil and gas production assets at 30 June 2016 is US\$6.22 million lower than it would have been if the change in estimate had not been made.

Adjustment to reflect reduced working interest

In April 2016, Trilogy Operating Inc., the operator of the Fairway Project (the Operator), notified the working interest owners in the Sydney #1 and #2 wells (the Sydney Wells) that at the time the Sydney Wells were drilled, executed oil and gas mineral leases were not in place with one of the mineral interest owners in the acreage tracts on which the Sydney Wells were drilled. This was not disclosed to the working interest owners at the time. Subsequent to the drilling and commencement of production, the mineral interest owner advised the Operator that they would not agree to lease the acreage to the Operator and instead elected to be treated as "unleased co-tenant" in the Sydney Wells. This defect in the title transfer from the original interest owner to the Operator in turn led to a defect in title transfer to the Company in the assignment of working interests to the Company.

Accordingly, the mineral interest owner was entitled to a back-in for a 28.125% working interest in the Sydney Wells and each working interest owners' interest was ratably reduced in the Sydney Wells. In the Company's April 2016 revenue remittance, the Operator unilaterally made retroactive downward adjustments to the production revenues credited to the Company's interest in the Sydney Wells totaling US\$326,500.

Accordingly, included in oil and gas production expenses and taxes in 2016 is a total of \$448,330 (US\$326,500) in respect of the above adjustment.

The Company has reserved its rights to claims against the Operator for losses and damages incurred as a result of the title defects that resulted in payout adjustments to its interests in the Sydney Wells, pending further assessment.

Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the consolidated entity's properties. In order to calculate reserves, estimates and assumptions are required about a large range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operation, estimates of reserves may change from period to period. Changes in reported reserves may affect the consolidated entity's financial results and financial position in a number of ways, including the following:

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Critical accounting judgements and key sources of estimation uncertainty (continued)

- Asset carrying values may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charged in the statement of comprehensive income may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change; and
- Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled share-based payments at fair value at the grant date using an option pricing model, taking into account the terms and conditions upon which the instruments were granted.

(f) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured.

Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Oil and Gas Production Revenue

Oil and gas production revenue is recognised when the significant risks and rewards of ownership have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the product to the buyer.

Sale of Oil and Gas Properties

Revenue is recognised when the titles have passed at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the properties;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties sold;
- The amount of revenue can be estimated reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

(g) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(h) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within periods ranging from 30 to 90 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original contractual terms. Factors considered by the consolidated entity in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the consolidated entity. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) De-recognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised when:

- the rights to receive cash flows from the asset have expired;
- the consolidated entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the consolidated entity has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the consolidated entity has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the consolidated entity's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the consolidated entity could be required to repay

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(j) Impairment of financial assets

The consolidated entity assesses at each balance date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The consolidated entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Foreign currency translation

Both the functional and presentation currency of Target Energy Limited is Australian dollars. Each entity in the consolidated entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the foreign operations, TELA USA Inc, TELA Garwood Limited LP and TELA Louisiana Limited Inc, is United States dollars (US\$). As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of Target Energy Limited at the rate of exchange ruling at the balance date and their statements of comprehensive income are translated at the average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(l) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Income tax (continued)

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(m) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Oil and Gas production revenues are recognised gross of the amount of production and severance taxes and a separate expense for production and severance taxes is recognised.

(n) Property, plant and equipment

Oil and gas properties include construction, installation or completion of infrastructure facilities such as pipelines, capitalised borrowing costs, transferred exploration and evaluation costs, and the cost of development wells.

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Office Equipment	—	over 5 to 8 years
Motor Vehicles	—	over 4 years
Computer Equipment	—	over 2.5 years
Oil and Gas Software	—	over 4 years
Website	—	over 10 years

Amortisation is calculated on a unit of production basis as follows:

Oil and Gas Properties	—	over the life of proved and probable reserves
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The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired. The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. For property, plant and equipment, impairment losses are recognised in the statement of comprehensive income in the amortisation and impairment of oil & gas properties.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(o) Financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The consolidated entity determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the consolidated entity commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the consolidated entity has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Impairment of assets

The consolidated entity assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the consolidated entity makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(q) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

(r) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

(s) Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the consolidated entity expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(t) Employee leave benefits

(i) Wages, salaries, annual leave and personal leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating personal leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating personal leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(u) Share-based payment transactions

(i) Equity settled transactions:

The consolidated entity has provided benefits to employees (including senior executives) of the consolidated entity in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using an option pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price and liquidity of the shares of Target Energy Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the consolidated entity's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition. If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 4).

(v) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Earnings/(loss) per share

Basic earnings/(loss) per share is calculated as net profit/(loss) attributable to members of the company, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings/(loss) per share is calculated as net profit/(loss) attributable to members of the company, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(x) Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure in relation to separate areas of interest for which rights of tenure are current, are capitalised in the period in which they are incurred and are carried at cost less accumulated impairment losses. The cost of acquisition of an area of interest and exploration expenditure relating to that area of interest are carried forward as an asset in the Statement of Financial Position so long as the following conditions are satisfied:

- (i) the rights to tenure of the area of interest are current; and
- (ii) at least one of the following conditions is also met:
 - the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
 - exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Exploration and evaluation expenditure is assessed for impairment when facts and circumstances suggest that their carrying amount exceeds their recoverable amount and where this is the case an impairment loss is recognised. Should a project or an area of interest be abandoned, the expenditure will be written off in the period in which the decision is made.

Once an area of interest enters a production phase all capitalised expenditure in relation to that area of interest is transferred to Development Expenditure. Capitalised Development Expenditure is not amortised. Capitalised Development Expenditure is assessed for impairment when the facts and circumstances suggest their carrying amount exceeds their recoverable amount and where this is the case an impairment loss is recognised. Once a proven and probable reserve is determined, all capitalised expenditure is transferred to Oil and Gas Properties.

(y) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company.

(z) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Parent entity financial information

The financial information for the parent entity, Target Energy Limited, disclosed in note 23 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the parent entity's financial statements. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Share-based payments

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(ab) Going Concern

For the year ended 30 June 2016, the Group had a net cash outflow from operating and investing activities of \$1,089,403 and incurred a net loss for the year of \$8,931,300. In addition, the Group has net liabilities of \$10,624,959 and a working capital deficiency of \$11,496,226 as at 30 June 2016.

The Company received slightly more than \$1,000,000 from the sale of oil and gas assets during the year.

In total the Company has notes with a face value of \$8,971,100 maturing on 31 March 2017. The Company raised a total of \$80,000 from director loans during the year and a total of \$95,000 subsequent to year end.

Reserve reports dated 30 June 2016 detailing the Company's share of Proved Reserves show a total of 2,868,400 Boe, valued at approximately \$17.7 million (US\$13.272 million)¹. However, for the purposes of the financial statements, those proven reserves requiring further capital expenditure were not considered and therefore only a total of 45,750 Boe was included. The Company is currently conducting a sale process in the USA in conjunction with an investment advisor. Bids are currently due by no later than 7 October 2016.

The Board considers that the Group is a going concern and recognises that additional funding of approximately \$14 million is required to ensure that it can continue to fund its operations and repay all existing liabilities during the twelve-month period from the date of approval of the financial reports.

Such additional funding may be derived from one or a combination of the following:

- the sale of assets;
- the settlement of legal actions;
- deferral of interest by Convertible Note holders (Note: Interest is currently being deferred on Convertible Notes with a face value of \$6,440,000 which represents approximately \$644,000 per annum. A Noteholder meeting was held on 28 September 2016 at which Noteholder approval was given for the Security Trustee to waive any default arising in respect of the Company's non-payment of interest for the quarter's ending 30 September 2016 and 31 December 2016);
- the placement of securities under ASX listing Rule 7.1 or otherwise;
- an excluded offer pursuant to the Corporation's Act 2001;
- further debt funding; or
- revenue from oil and gas wells.

Additionally, whilst not desirable, certain planned capital expenditures can be deferred to the extent considered necessary to match the availability of the funding.

Accordingly, the Directors believe that the Group will obtain sufficient funding to enable it to continue as a going concern and that it is appropriate to adopt that basis of accounting in the preparation of the financial report. Should the Group be unable to obtain sufficient funding as outlined above, there is a material uncertainty that may cast significant doubt whether it will be able to continue as a going concern and therefore whether it will realise its assets, in particular its Oil & Gas Properties (which have a carrying value at 30 June 2016 of \$860,946), and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classifications of liabilities that might be necessary should it not continue as a going concern.

1. Based on net proven reserves reported in ASX release "Fairway Reserves Update" dated 28 July 2016 and calculated based on the present value of future net income discounted at 10%pa using an oil price of US\$55.14/barrel and US\$2.68 to \$4.21/MCF for gas and an exchange rate of 0.75 USD: 1.00 AUD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 2: REVENUE

	2016 \$	2015 \$
Revenue		
Oil and Gas income	730,436	2,282,501
Interest received - other	1,738	4,687
Total revenue	<u>732,174</u>	<u>2,287,188</u>
Gain on Sale of Oil and Gas Property	1,230,894	-
Gain on sale of Property, Plant and Equipment	45,311	-
Other income	-	649
Total other income	<u>1,276,205</u>	<u>649</u>

NOTE 3: INCOME TAX

(a) Income tax recognised in profit/loss

No income tax is payable by the company or consolidated entities as they have recorded losses for income tax purposes for the year.

(b) Numerical reconciliation between income tax expense and the loss before income tax.

The prima facie income tax benefit on pre-tax accounting loss from operations reconciles to the income tax benefit in the financial statements as follows:

	Consolidated 2016 \$	2015 \$
Accounting loss before tax	<u>(8,931,300)</u>	<u>(25,975,732)</u>
Income tax benefit/(expense) at 30%	2,679,390	7,792,720
Non-deductible expenses:		
Foreign tax rate adjustment	415,258	1,563,448
Foreign exchange gain / (loss)	(21)	2,510
Impairment of oil and gas properties	(1,739,489)	(6,057,530)
Other non-deductible expenses	(70)	(410)
Unrecognised tax losses	<u>(1,355,068)</u>	<u>(3,300,738)</u>
Income tax benefit attributable to loss from ordinary activities before tax	<u>-</u>	<u>-</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 3: INCOME TAX (continued)

	2016 \$	2015 \$
(c) Unrecognised deferred tax balances		
Tax losses attributable to members of the consolidated group - revenue	<u>58,611,953</u>	47,974,724
Potential tax benefit at 30%	17,583,586	14,392,417
<i>Deferred tax liability not booked</i>		
Deferred exploration expenditure and oil & gas properties	(258,284)	(2,085,986)
<i>Deferred tax asset not booked</i>		
Amounts recognised in profit & loss		
-employee provisions	32,597	24,070
-other	262,465	144,269
Amounts recognised in equity		
- share issue costs	58,630	87,574
Net unrecognised deferred tax asset at 30%	<u>17,678,994</u>	12,562,344

A deferred tax asset attributable to income tax losses has not been recognised at balance date as the probability criteria disclosed in Note 1(l) is not satisfied and such benefit will only be available if the conditions of deductibility also disclosed in Note 1(l) are satisfied.

NOTE 4: EARNINGS/(LOSS) PER SHARE

	2016 Cents	2015 Cents
<i>Basic loss per share (cents per share)</i>	<u>(0.9)</u>	(4.9)
The loss and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:		
Loss for the year	<u>(8,931,300)</u>	(25,975,732)
Weighted average number of shares outstanding during the year used in calculations of basic loss per share	<u>1,029,344,686</u>	532,490,387

Diluted loss per share

There is no dilution of shares due to options as the potential ordinary shares are not dilutive and are therefore not included in the calculation of diluted loss per share

NOTE 5: CASH AND CASH EQUIVALENTS

	2016 \$	2015 \$
Cash at bank	87,668	907,128
Cash on hand	23	50
	<u>87,691</u>	907,178

Cash at bank earns interest at floating rates based on daily bank deposit rates

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 5: CASH AND CASH EQUIVALENTS (Continued)

	2016 \$	2015 \$
(i) Reconciliation to the Statement of Cash Flows		
For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank.		
Cash and cash equivalents as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:		
Cash and cash equivalents	<u>87,691</u>	907,178
(ii) Reconciliation of loss after income tax to net cash flows from operating activities:		
Loss after income tax	(8,931,300)	(25,975,732)
Depreciation	29,056	51,985
Amortisation and impairment	6,205,652	23,099,983
Non-cash interest on convertible notes	585,563	-
Gain on sale of property, plant and equipment	(1,276,205)	-
Loss on sale of property, plant and equipment	14,338	-
Net foreign exchange (gain)/loss	10,599	(7,412)
	<u>(3,362,297)</u>	(2,831,176)
Changes in operating assets and liabilities, net of the effects of purchase of subsidiaries:		
(Increase)/decrease in trade and other receivables	89,210	981,342
(Decrease)/increase in trade and other payables	982,052	995,729
(Decrease)/increase in employee benefits	28,424	(5,060)
Net cash outflow from operating activities	<u>(2,262,611)</u>	(859,165)

NOTE 6: TRADE AND OTHER RECEIVABLES

	2016 \$	2015 \$
Current		
Trade receivables	54,331	126,508
Prepayments	7,095	11,430
GST recoverable	3,237	16,093
Other receivables	358,073	348,063
Impairment of other receivables	(352,406)	(342,554)
	<u>70,330</u>	159,540

The average credit period on sales of goods and rendering of services is 30-90 days.
No interest is charged.

Ageing of impaired other receivables

60 – 90 days	-	-
90 – 120 days	-	-
120 + days	352,406	342,554
Total	<u>352,406</u>	<u>342,554</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 7: PROPERTY, PLANT AND EQUIPMENT

	Office Equipment \$	Computer Equipment \$	Motor Vehicles \$	Oil & Gas Software \$	Website \$	Oil & Gas Properties \$	Total \$
Year ended 30 June 2016							
At 1 July 2015, net of accumulated depreciation / amortisation	44,217	7,042	-	2,215	9,740	6,953,286	7,016,500
Effect of movements in foreign exchange	2,206	(418)	-	114	357	199,977	202,236
Additions	600	-	-	-	-	53,168	53,768
Disposals	(26,447)	(249)	-	-	-	(230,618)	(257,314)
Impairment for the year ¹	-	-	-	-	-	(5,798,298)	(5,798,298)
Depreciation/amortisation for the year	(17,703)	(5,381)	-	(2,329)	(3,643)	(316,569)	(345,625)
At 30 June 2016, net of accumulated depreciation and amortisation	2,873	994	-	-	6,454	860,946	871,267
At 30 June 2015							
Cost	151,560	60,167	62,229	25,159	17,329	46,519,233	46,835,677
Accumulated depreciation/amortisation	(107,343)	(53,125)	(62,229)	(22,944)	(7,589)	(39,565,947)	(39,819,177)
Net carrying amount	44,217	7,042	-	2,215	9,740	6,953,286	7,016,500
At 30 June 2016							
Cost	119,498	58,621	-	25,883	17,826	43,139,799	43,361,627
Accumulated depreciation/amortisation	(116,625)	(57,627)	-	(25,883)	(11,372)	(42,278,853)	(42,490,360)
Net carrying amount	2,873	994	-	-	6,454	860,946	871,267

The useful life of the assets was estimated as follows for 2016:

Office Equipment	5 to 8 years
Computer Equipment	2.5 years
Oil & Gas Software	4 years
Motor Vehicles	4 years
TEX Website	10 years

1. Impairment of oil and gas properties was attributable to the requirement that only those Proven Reserves upon which the Company could reasonably expect to be able to fund capital expenditure at the optimum rate required for development could be included. Cash constraints prevented the Company from developing its asset at a more optimal rate. The reserve calculations were significantly affected by the 54% drop in the international oil price from July 2015 to June 2016.

NOTE 8: TRADE AND OTHER PAYABLES

	2016 \$	2015 \$
Current		
Trade payables	1,925,549	1,583,141
Accruals	874,882	480,896
Employee entitlements	25,027	19,767
Other payables	7,864	9,424
	<u>2,833,322</u>	<u>2,093,228</u>

Trade payables are non-interest bearing and are normally settled on 30-day terms. Currently arrangements are in place with creditors to defer payment of payables which has resulted in several payables not being settled on 30-day terms.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 9: BORROWINGS

	2016 \$	2015 \$
Current		
Secured Director Loans	80,000	-
	<u>80,000</u>	<u>-</u>

An entity of which Mr Rowe is a director and shareholder, provided a loan to the Company of \$30,000 on 29 June 2016. Interest was payable on the loan at 10% per annum. A total of \$Nil interest was incurred on the loan. The loan was secured by an equal second ranking security over the Company's Fairway project and is repayable on or before 31 March 2017.

An entity of which Mr Mann is a director and shareholder, provided a loan to the Company of \$30,000 on 29 June 2016. Interest was payable on the loan at 10% per annum. A total of \$Nil interest was incurred on the loan. The loan was secured by an equal second ranking security over the Company's Fairway project and is repayable on or before 31 March 2017.

An entity of which Mr Roe is a director and shareholder, provided a loan to the Company of \$20,000 on 29 June 2016. Interest was payable on the loan at 10% per annum. A total of \$Nil interest was incurred on the loan. The loan was secured by an equal second ranking security over the Company's Fairway project and is repayable on or before 31 March 2017.

NOTE 10: PROVISIONS

	Consolidated 2016 \$	2015 \$
Current		
Employee entitlements	83,629	60,465
	<u>83,629</u>	<u>60,465</u>
Balance at the beginning of the year	60,465	65,904
Utilised	-	(9,787)
Arising during the year	23,164	4,348
Balance at the end of the year	<u>83,629</u>	<u>60,465</u>

NOTE 11: CONVERTIBLE NOTES

	Face Value Consolidated 2016 \$	2015 \$
Balance 1 July	8,971,100	6,000,000
Issued during the year ⁽ⁱ⁾	-	3,000,000
Converted to notes/equity/shares during the year	-	(28,900)
Balance at end of year	<u>8,971,100</u>	<u>8,971,100</u>

NOTE 11: CONVERTIBLE NOTES (Continued)

	Present Value Consolidated	
	2016	2015
	\$	\$
Face Value of Notes	8,971,100	8,971,100
Transaction costs on liability component	(318,158)	(318,158)
Equity component transferred to reserves	(1,171,960)	(1,171,960)
Transaction costs on equity component	43,615	43,615
Unwinding of discount rate	1,132,699	456,351
Balance at end of year	8,657,296	7,980,948

	2016	2015
	No.	No.
Balance 1 July	179,422,000	120,000,000
Issued during the year ⁽ⁱ⁾	-	60,000,000
Converted to notes/equity/shares during the year	-	(578,000)
Balance at end of year	179,422,000	179,422,000

(i) Details of the convertible notes issued.

No convertible notes were issued in the year ended 30 June 2016.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 12: ISSUED CAPITAL

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

	2016	2015
	\$	\$
1,031,206,428 (2015: 998,847,585) fully paid ordinary shares	38,541,914	38,362,527
	Consolidated	
	2016	2015
	No.	No.
At start of year	998,847,585	453,746,588
Shares issued at \$0.045	-	45,362,892
Shares issued at \$0.006	32,358,843	499,160,105
Conversion of convertible notes at \$0.050	-	578,000
Balance at end of year	1,031,206,428	998,847,585
	Consolidated	
	2016	2015
	\$	\$
At start of year	38,362,527	33,492,432
Shares issued at \$0.045	-	2,041,330
Shares issued at \$0.006	194,153	2,994,961
Conversion of convertible notes at \$0.050	-	28,900
Less share issue costs	(14,766)	(195,096)
Balance at end of year	38,541,914	38,362,527

NOTE 13: RESERVES

	2016	2015
	\$	\$
Reserves	6,659,228	6,480,851

Reserves comprise the following:

(i) Option Premium Reserve

	Consolidated	
	2016	2015
	No.	No.
Number of options - options issued other than as share based payments		
At start of year	249,580,100	25,714,286
Issue of options	16,179,422	249,580,100
Expiry of options	-	(25,714,286)
Balance at 30 June	265,759,522	249,580,100
	Consolidated	
	2016	2015
	\$	\$
Value of options		
At start of year	340,000	340,000
Balance at 30 June	340,000	340,000

NOTE 13: RESERVES (Continued)

(ii) Share-Based Payments Reserve

	Consolidated	
	2016	2015
	No.	No.
Number of options - options issued as share based payments		
At start of year	1,666,666	2,416,666
Issue of options	-	-
Expiry of options	-	(750,000)
Balance at 30 June	1,666,666	1,666,666

	Consolidated	
	2016	2015
	\$	\$
Value of options		
At start of year	263,455	263,455
Issue of shares	-	-
Balance at 30 June	263,455	263,455

(iii) Foreign Currency Translation Reserve

At start of year	4,749,051	(94,337)
Currency translation differences	178,377	4,843,388
Balance at 30 June	4,927,428	4,749,051

(iv) Convertible Note - Equity Component Reserve

At start of year	1,128,345	791,407
Conversion of notes	-	(4,079)
Equity component of convertible notes (net of transaction costs)	-	341,017
Balance at 30 June	1,128,345	1,128,345

Nature and purpose of reserves

Share Based Payments Reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration and to third parties for services provided.

Option Premium Reserve

This reserve records the proceeds from the issue of options at 1 cent as per the prospectus dated 9 March 2007.

Foreign Currency Translation Reserve

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Convertible Note – Equity Component Reserve

The reserve is used to record the equity component of convertible notes.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 14: SHARE BASED PAYMENT PLANS

Employee Share Plan (ESP)

No shares were issued pursuant to the employee share plan during the year (2015: Nil).

The fair value of the equity settled shares granted is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the shares were issued. Included under share based payment expenses in the statement of comprehensive income is \$Nil (2015: \$Nil) in respect of the shares issued.

Employee Share Loan Plan (ESLP)

An employee share loan is provided to purchase the plan shares. The loan is interest free with recourse limited to the underlying shares. The loan is made based on the market price of the underlying shares on the grant date and is repayable in full by 8 May 2018.

Employee Share Option Plan

The following share-based payment arrangements were in place during the current and prior periods:

	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
				\$	\$
Employee share option	750,000	24 October 2011	24 October 2014	12 cents	35,264

A summary of the movements of employee share options issued is as follows:

	2016	2016	2015	2015
	No.	Weighted average exercise price	No.	Weighted average exercise price
Outstanding at the beginning of the period	-	-	750,000	12 cents
Granted during the period	-	-	-	-
Expired during the period	-	-	(750,000)	12 cents
Outstanding at the end of the period	-	-	-	-
Exercisable at the end of the period	-	-	-	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 15: FINANCIAL INSTRUMENTS

30 June 2016	Fixed Interest Rate Maturing						Total
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Yrs	Over 5 Yrs	Non- interest bearing	
		\$	\$	\$	\$	\$	\$
Financial Assets:							
Cash & cash equivalents	0.5%	87,691	-	-	-	-	87,691
Trade and other receivables		-	-	-	-	70,330	70,330
Total Financial Assets		<u>87,691</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,330</u>	<u>158,021</u>
Financial Liabilities:							
Trade and other payables		-	-	-	-	2,833,322	2,833,322
Secured director loans	10.0%	-	80,000	-	-	-	80,000
Convertible Notes	10.0%	-	8,657,296	-	-	-	8,657,296
Total financial liabilities		<u>-</u>	<u>8,737,296</u>	<u>-</u>	<u>-</u>	<u>2,833,322</u>	<u>11,570,618</u>

30 June 2015	Fixed Interest Rate Maturing						Total
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Years	Over 5 Years	Non- interest bearing	
		\$	\$	\$	\$	\$	\$
Financial Assets:							
Cash & cash equivalents	0.2%	907,178	-	-	-	-	907,178
Trade and other receivables		-	-	-	-	159,540	159,540
Total financial assets		<u>907,178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>159,540</u>	<u>1,066,718</u>
Financial Liabilities:							
Trade and other payables		-	-	-	-	2,153,693	2,153,693
Convertible Notes	10.0%	-	-	7,980,948	-	-	7,980,948
Total financial liabilities		<u>-</u>	<u>-</u>	<u>7,980,948</u>	<u>-</u>	<u>2,153,693</u>	<u>10,134,641</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 16: EXPENDITURE COMMITMENTS

	2016 \$	2015 \$
(i) Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments		
- not later than 12 months	81,376	77,403
- between 12 months and 5 years	27,319	105,656
- greater than 5 years	-	-
	108,695	183,059

The Company's existing lease for office space it occupies in Houston expires on 31 October 2017.

(ii) Expenditure commitments contracted for:

Exploration Tenements

In order to maintain current rights of tenure to exploration tenements, the Company is required to outlay rentals and to meet the minimum expenditure requirements. These obligations are not provided for in the financial statements and are payable:

- not later than 12 months	-	-
- between 12 months and 5 years	-	-
- greater than 5 years	-	-
	-	-

NOTE 17: RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Target Energy Limited and the subsidiaries listed in the following table.

<i>Name</i>	Country of Incorporation	% Equity Interest 2016	% Equity Interest 2015	Investment \$ 2016	Investment \$ 2015
Target Energy Limited	Australia	100	100	-	-
TELA (USA) Inc	USA	100	100	-	-
TELA Louisiana Limited Inc	USA	100	100	-	-
TELA Texas Holdings Limited Inc	USA	100	100	-	-
<i>Its subsidiaries:</i>					
TELA Texas General LLC	USA	100	100	-	-
TELA Texas Limited LLC	USA	100	100	-	-
<i>Its subsidiary:</i>					
TELA Garwood Limited LP ¹	USA	99	99	-	-

Note 1 - 1% owned by Tela Texas General LLC

Target Energy Limited is the ultimate Australian parent entity and ultimate parent of the Group.

NOTE 17: RELATED PARTY DISCLOSURE (Continued)

	2016	2015
Amounts owed by Related Parties	\$	\$
Subsidiaries		
TELA Louisiana Limited Inc	17,051,458	15,855,972
TELA Garwood Limited LP	7,939,043	7,836,113
TELA (USA) Inc	26,039,110	24,723,677
	<hr/>	<hr/>
Total	51,029,611	48,415,762
Allowance for impairment	(51,029,611)	(42,520,613)
	<hr/>	<hr/>
	-	5,895,149

Outstanding balances at year-end are unsecured and settlement occurs in cash.

For the year ended 30 June 2016, the consolidated entity has recorded a reversal of a prior impairment loss in respect of the loan to TELA Garwood Limited LP amounting to \$364,565 (2015: Loss of \$7,836,113), and has made an allowance for the impairment of the loan to TELA Louisiana Limited Inc amounting to \$2,008,415 (2015: \$3,581,437) and TELA USA Inc amounting to \$6,865,147 (2015: \$16,714,700).

An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the consolidated entity recognises an allowance for the impairment loss.

Loans to controlled entities bear interest at the rate of between 2.2% and 2.7% (2015: 2% to 3.5%). Interest received from controlled entities during the year was \$1,295,994 (2015: \$1,075,452).

NOTE 18: EVENTS AFTER THE REPORTING DATE

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future periods, other than;

- An additional \$30,000 was advanced by an entity of which Mr Rowe is a director and shareholder. The loan was secured by an equal second ranking security over the Company's Fairway project and is repayable on or before 31 March 2017;
- An additional \$20,000 was advanced by an entity of which Mr Mann is a director and shareholder. The loan was secured by an equal second ranking security over the Company's Fairway project and is repayable on or before 31 March 2017;
- An additional \$15,000 was advanced by an entity of which Mr Roe is a director and shareholder. The loan was secured by an equal second ranking security over the Company's Fairway project and is repayable on or before 31 March 2017;
- An amount of \$30,000 was advanced by parties including an entity of which Mr Rowe is a director and shareholder, which advanced \$20,000; and
- A Noteholder meeting was held on 28 September 2016 at which Noteholder approval was given for the Security Trustee to waive any default arising in respect of the Company's non-payment of interest for the quarter's ending 30 September 2016 and 31 December 2016.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 19: AUDITORS' REMUNERATION

	2016 \$	2015 \$
Amounts received or due and receivable by the auditors for:		
Audit or review of the financial reports of the consolidated entity - HLB Mann Judd	44,000	44,000
Audit or review of the financial reports of subsidiaries - GBH CPAs, PC	89,002	89,168

NOTE 20: KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of Key Management Personnel - Directors

Christopher Rowe	Chairman (non-executive)
Laurence Roe	Managing Director
Stephen Mann	Director (non-executive)

There were no changes in the Managing Director or key management personnel after reporting date and up to the date the financial report was authorised for issue.

(b) Compensation by category of Key Management Personnel

	2016 \$	2015 \$
Short-term employee benefits	274,752	428,517
Post-employment benefits	19,498	34,057
Share-based payments	-	-
	<u>294,250</u>	<u>462,574</u>

For the calculation of compensation received by key management personnel, key management personnel includes Mr Rowe, Mr Roe and Mr Mann in accordance with the definition of key management personnel in the remuneration report within the directors' report.

(c) Interest Paid to Key Management Personnel

	2016 \$	2015 \$
Directors		
Christopher Rowe	49,182	49,750
Stephen Mann	-	4,000
Laurence Roe	-	2,000
	<u>49,182</u>	<u>55,750</u>

(d) Loans with Key Management Personnel

No loans have been provided to key management personnel during the year.

An entity of which Mr Rowe is a director and shareholder, provided a loan to the Company of \$30,000 on 29 June 2016. Interest was payable on the loan at 10% per annum. A total of \$Nil interest was accrued on the loan. The loan was secured by an equal second ranking security over the Company's Fairway project and is repayable on or before 31 March 2017.

An entity of which Mr Mann is a director and shareholder, provided a loan to the Company of \$30,000 on 29 June 2016. Interest was payable on the loan at 10% per annum. A total of \$Nil interest was accrued on the loan. The loan was secured by an equal second ranking security over the Company's Fairway project and is repayable on or before 31 March 2017.

(d) Loans with Key Management Personnel (Continued)

An entity of which Mr Roe is a director and shareholder, provided a loan to the Company of \$20,000 on 29 June 2016. Interest was payable on the loan at 10% per annum. A total of \$Nil interest was accrued on the loan. The loan was secured by an equal second ranking security over the Company's Fairway project and is repayable on or before 31 March 2017.

(e) Other Transactions and balances with Key Management Personnel

An entity, of which Mr. Rowe is a director and shareholder, provided petrophysical consulting services to the Company. The services were provided on arm's length terms for a total of \$Nil (2015: \$19,150).

The Company paid living expenses in relation to the relocation of Mr Roe to the USA including the cost of an apartment in Houston. These expenses totalled \$Nil (2015: \$60,475).

An entity, of which Mr. Roe's spouse is the sole director and shareholder, provided administrative services to the Company. The services were provided on arm's length terms for a total of \$Nil (2015: \$14,003).

(f) Amounts payable to Key Management Personnel at year end

An amount of \$86,333 (2015: \$11,666) was payable at year end to an entity, of which Mr. Rowe is a director and shareholder. Interest of \$49,182 (2015: \$15,479) was payable at year end to an entity, of which Mr. Rowe is a director and shareholder.

Directors fees totalling \$70,000 (2015: \$10,045), inclusive of superannuation, were payable at year end to Mr. Mann.

(g) Convertible Notes issued to and held by Key Management Personnel

No convertible notes were issued to key management personnel during the year.

NOTE 21: FINANCIAL RISK MANAGEMENT

The consolidated entity's financial situation is not complex. Its activities may expose it to a variety of financial risks in the future: market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. At that stage the consolidated entity's overall risk management program will focus on the unpredictability of the financial markets and seek to minimise potential adverse effects on the financial performance of the consolidated entity.

Risk management is carried out under an approved framework covering a risk management policy and internal compliance and control by management. The Board identifies, evaluates and approves measures to address financial risks.

The consolidated entity holds the following financial instruments:

	2016	2015
	\$	\$
Financial assets		
Cash and cash equivalents	87,691	907,178
Trade and other receivables	70,330	159,540
	158,021	1,066,718
Financial liabilities		
Trade and other payables	2,833,322	2,153,693
Borrowings	80,000	-
Convertible Notes	8,657,296	7,980,948
	11,570,618	10,134,641

The carrying amounts of financial assets and financial liabilities approximate their fair values.

(a) Market risk

Cash flow and fair value interest rate risk

The consolidated entity's main interest rate risk arises from cash deposits to be applied to exploration and development of areas of interest. Deposits at variable rates expose the consolidated entity to cash flow interest rate risk. Deposits at fixed rates expose the consolidated entity to fair value interest rate risk. During 2016 and 2015, the consolidated entity's deposits at variable rates were denominated in Australian Dollars and United States Dollars.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 21: FINANCIAL RISK MANAGEMENT (continued)

As at the reporting date, the consolidated entity had the following variable rate deposits.

	2016		2015
	Weighted average interest rate %	Balance \$	Weighted average interest rate %
		Balance \$	
Deposit		87,668	907,128
Other cash available		23	50
Net exposure to cash flow interest rate risk	0.5%	87,691	0.2% 907,178

The consolidated entity analyses its interest rate exposure on a dynamic basis.

Sensitivity

During 2015/2016, if interest rates had been 50 basis points higher or lower than the prevailing rates realised, with all other variables held constant, there would be an immaterial change in post-tax loss for the year.

As a result of significant operations in the United States and large purchases denominated in United States Dollars, the consolidated entity's statement of financial position can be affected significantly by movements in the US\$/A\$ exchange rates. The consolidated entity seeks to mitigate the effect of its foreign currency exposure by holding US Dollars.

The consolidated entity also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

Foreign currency risk

100% of the consolidated entity's sales are denominated in a currency (USD) other than the functional currency of the operating entity making the sale. All of the production costs are denominated in USD.

The consolidated entity does not have a policy to enter into forward contracts. At 30 June 2016, the consolidated entity had the following exposure to US\$ foreign currency expressed in A\$ equivalents:

	2016	2015
	\$	\$
Financial assets		
Cash and cash equivalents	8,042	370,812
Trade and other receivables	59,998	132,017
	68,040	502,829
Financial liabilities		
Trade and other payables	1,547,688	1,619,958
Convertible Notes	-	-

NOTE 21: FINANCIAL RISK MANAGEMENT (continued)

The following sensitivity is based on the foreign currency risk exposures in existence at the balance date:

At 30 June 2016, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

	2016		2015
	Weighted average interest rate	Balance	Weighted average interest rate
	%	\$	%
Deposit		87,668	907,128
Other cash available		23	50
Net exposure to cash flow interest rate risk	0.5%	87,691	0.2% 907,178

	US\$	A\$	A\$ +10%	Movement +10%	A\$ -10%	Movement -10%
Cash	5,985	8,043	7,312	(731)	8,937	894
Debtors	44,645	59,999	54,544	(5,454)	66,665	6,667
Creditors	(1,151,635)	(1,547,688)	(1,406,989)	140,700	(1,719,654)	(171,966)
	(1,101,005)	(1,479,646)	(1,345,133)	134,515	(1,644,052)	(164,405)

(b) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures on outstanding receivables and prepayments made in respect of programs to project operator. In relation to other credit risk areas management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Cash transactions are limited to high credit quality financial institutions.

The Consolidated entity has the following significant concentration of credit risk:

USD

Trade receivables and other receivables:	Trilogy Operating Inc.	54,331
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The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised at the beginning of this note.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. The Consolidated entity manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Consolidated entity will aim at maintaining flexibility in funding by accessing appropriate committed credit lines available from different counterparties where appropriate and possible. Surplus funds when available are generally only invested in high credit quality financial institutions in highly liquid markets.

The Consolidated entity and parent entity have no borrowing facilities.

(d) Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Company consists of equity attributable to equity holders, comprising issued capital and reserves as disclosed in notes 10 and 11. The Board reviews the capital structure on a regular basis and considers the cost of capital and the risks associated with each class of capital. The Company will balance its overall capital structure through new share issues as well as the issue of debt, if the need arises.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 22: SEGMENT REPORTING

Description of segments

The Company's principal activities are the development and production of and exploration for oil and gas in the United States of America. It operates through its USA subsidiaries TELA Garwood Limited LP, TELA Louisiana Limited Inc and TELA USA Inc. Australian operations include the Company's Office which includes all corporate expenses that cannot be directly attributed to the operation of the consolidated entity's operating segment.

Segment information

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2016 and 30 June 2015.

	Continuing operations				
	USA Subsidiaries	Australian operations	Total	Inter-segment transactions	Consolidated
30-Jun-16	\$	\$	\$	\$	\$
Revenue					
Sales to external customers	730,436	-	730,436	-	730,436
Other revenues from external customers	1,276,205	-	1,276,205	-	1,276,205
Total segment revenue	2,006,641	-	2,006,641	-	2,006,641
Interest revenue	-	1,297,732	1,297,732	(1,295,994)	1,738
Foreign exchange gain/loss	(1,363,162)	1,363,092	(70)	-	(70)
Interest expense	(1,340,125)	(1,538,444)	(2,878,569)	1,295,994	(1,582,575)
Depreciation and amortisation	(342,476)	(93,934)	(436,410)	-	(436,410)
Impairment	(5,798,298)	-	(5,798,298)	-	(5,798,298)
Impairment of loans	-	(8,508,997)	(8,508,997)	8,508,997	-
Other expenses	(2,459,903)	(662,423)	(3,122,326)	-	(3,122,326)
Income tax expense	-	-	-	-	-
Profit/(loss) for the year	(9,297,323)	(8,142,974)	(17,440,297)	8,508,997	(8,931,300)
Segment assets					
Investments in associates	-	98	98	(98)	-
Capital expenditure	869,706	1,561	871,267	-	871,267
Other assets	68,038	89,982	158,020	-	158,020
Segment liabilities	1,547,688	10,106,559	11,654,247	-	11,654,247
Cash flow information					
Net cash flow from operating activities					(2,262,611)
Net cash flow from investing activities					1,173,208
Net cash flow from financing activities					259,387

- (i) Intersegment revenue is recorded at amounts equal to competitive market prices charged to external customers for similar goods and is eliminated on consolidation.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 22: SEGMENT REPORTING (continued)

	Continuing operations				
	USA Subsidiaries	Australian operations	Total	Inter-segment transactions	Consolidated
30-Jun-15	\$	\$	\$	\$	\$
Revenue					
Sales to external customers	2,282,501	-	2,282,501	-	2,282,501
Other revenues from external customers	-	649	649	-	649
Total segment revenue	2,282,501	649	2,283,150	-	2,283,150
Interest revenue	-	1,080,139	1,080,139	(1,075,452)	4,687
Foreign exchange gain/loss	(8,307,337)	8,314,749	7,412	-	7,412
Interest expense	(1,103,425)	(1,109,798)	(2,213,223)	1,076,405	(1,136,818)
Depreciation and amortisation	(2,865,703)	(94,497)	(2,960,200)	-	(2,960,200)
Impairment	(20,191,768)	-	(20,191,768)	-	(20,191,768)
Impairment of loans	-	(28,132,249)	(28,132,249)	28,132,249	-
Other expenses	(2,790,963)	(1,191,232)	(3,982,195)	-	(3,982,195)
Income tax expense	-	-	-	-	-
Profit/(loss) for the year	(32,976,695)	(21,132,239)	(54,108,934)	28,133,202	(25,975,732)
Segment assets					
Investments in associates	-	98	98	(98)	-
Capital expenditure	7,012,139	4,361	7,016,500	-	7,016,500
Other assets	502,966	6,458,902	6,961,868	(5,895,149)	1,066,719
Segment liabilities	7,515,107	8,514,683	16,029,790	(5,895,149)	10,134,641
Cash flow information					
Net cash flow from operating activities					(859,165)
Net cash flow from investing activities					(10,570,614)
Net cash flow from financing activities					7,835,621

(i) Intersegment revenue is recorded at amounts equal to competitive market prices charged to external customers for similar goods and is eliminated on consolidation.

Other segment information

Segment revenue reconciliation to the statement of comprehensive income

	Consolidated	
	2016	2015
	\$	\$
Total segment revenue	2,006,641	2,283,150
Inter-segment sales elimination	-	-
Other revenue from continuing operations	1,738	4,687
Total revenue	2,008,379	2,287,837

Revenue from external customers by geographical locations is detailed below. Revenue is attributed to geographical location based on the location of customers. The Company does not have external revenues from external customers that are attributable to any foreign country other than shown.

	\$	\$
Australia	1,738	5,336
United States	2,006,641	2,282,501
Total revenue	2,008,379	2,287,837

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 23: PARENT ENTITY DISCLOSURES

(a) Financial Position	2016	2015
	\$	\$
Assets		
Current assets	89,983	563,851
Non-current assets	1,659	5,899,510
Total assets	91,642	6,463,361
Liabilities		
Current liabilities	10,106,559	533,734
Non Current Liabilities	-	7,980,948
Total liabilities	10,106,559	8,514,682
Equity		
Issued capital	38,541,914	38,362,527
Reserves	1,731,800	1,731,800
Accumulated losses	(50,288,631)	(42,145,648)
Total Equity	(10,014,917)	(2,051,321)
(b) Financial Performance		
Loss for the year	(8,142,983)	(21,132,242)
Other comprehensive income	-	-
Total comprehensive loss	(8,142,983)	(21,132,242)
(c) Contingent liabilities of the parent entity	-	-
(d) Commitments for the acquisition of property, plant and equipment by the parent entity	-	-
(e) Operating lease Commitments	-	-

NOTE 24: CONTINGENT ASSETS AND LIABILITIES

Target subsidiary TELA Garwood LP ("TELA Garwood") has filed a lawsuit in the District Court of Harris County (Houston), Texas against Victory Energy Corporation and Aurora Energy Partners ("Victory", "Aurora"). TELA Garwood's suit charges that Aurora, acting by and through its general partner, Victory, breached its obligation to purchase certain of TELA Garwood's interests in the West Texas Fairway Project (Howard and Glasscock counties) pursuant to a Purchase and Sale Agreement between TELA Garwood and Aurora dated June 30, 2014 ("PSA"). TELA Garwood has also filed suit against the individual directors of Victory for their roles in Victory causing Aurora to breach its obligations under the PSA.

Victory and Aurora have filed counterclaims which TELA Garwood plans to vigorously oppose. In addition to TELA Garwood's suit, in January 2015 the operator of the Fairway project also filed a law suit against Aurora, alleging Aurora's failure to pay invoices associated with a number of wells in the Fairway Project. While the suit remains underway, in February 2015 the operator exercised its rights under the operating agreement to recover Aurora's outstanding costs, pro rata from the other partners. The Company's share of these costs was approximately \$730,000 (US\$545,000). The Company may amend its current suit to recover these funds from Aurora.

Other than the above, there has not been any material matter or circumstance that has arisen after the balance date that has significantly affected or may significantly affect the operations of the Group or the state of affairs of the group in future financial periods.

1. In the opinion of the directors of Target Energy Limited (the "Company"):
 - a) the accompanying financial statements and notes are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year then ended; and
 - (ii) complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements; and
 - b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
 - c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the year ended 30 June 2016.

This declaration is signed in accordance with a resolution of the Board of Directors.



Laurence Roe
Director

30 September 2016



Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Target Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Target Energy Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's and its controlled entities' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

HLB Mann Judd (WA Partnership) ABN 22 183 232 714
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Liability limited by a scheme approved under Professional Standards Legislation

HLB Mann Judd (WA Partnership) is a member of  HLB International, a worldwide organisation of accounting firms and business advisers.



Auditor's opinion

In our opinion:

- (a) the financial report of Target Energy Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(c).

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1(ab) in the financial report which indicates that for the year ended 30 June 2016, the Group had a net cash outflow from operating and investing activities of \$1,089,403 and incurred a net loss for the year of \$8,931,300. In addition, the Group has net liabilities of \$10,624,959 and a working capital deficiency of \$11,496,226 as at 30 June 2016. These conditions, along with other matters as set forth in Note 1(ab) indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets, in particular its oil and gas properties, and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Target Energy Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

A handwritten signature in blue ink, appearing to read 'M R W Ohm'.

M R W Ohm
Partner

Perth, Western Australia
30 September 2016

SHAREHOLDER INFORMATION

DISTRIBUTION OF EQUITY SECURITIES

The distribution of members and their holdings of fully paid ordinary shares as at 6 October 2016.

Shares held	No. of Shareholders	Percentage
1 – 1,000	113	0.002%
1,001 – 5,000	75	0.026%
5,001 – 10,000	90	0.070%
10,001 – 100,000	483	1.979%
100,001 and over	431	97.923%
Total	1,192	100.000%

Less than Marketable Parcel at 0.2 cents	Min Parcel size	Holders	Units
Shares	249,999	909	45,922,093

The distribution of holders and their holdings of listed options to acquire fully paid ordinary shares as at 6 October 2016.

Shares held	No. of Option holders	Percentage
1 – 1,000	9	0.000%
1,001 – 5,000	3	0.004%
5,001 – 10,000	11	0.031%
10,001 – 100,000	66	1.002%
100,001 and over	111	98.963%
Total	200	100.000%

RESTRICTED SECURITIES

In May 2013, 1,666,666 shares were issued to an employee pursuant to the Employee Share Plan. The Company provided an interest free loan to the employee to purchase the shares. The shares are also subject to performance conditions. The shares will remain subject to a voluntary restriction arrangement until the performance conditions are met or waived and the loan is repaid. As the employment arrangement has ceased, the Company intends to sell the shares on market in accordance with the terms of the Plan and the loan.

VOTING RIGHTS

Under the Company's constitution, all ordinary shares carry one vote per share without restriction. Options over ordinary shares do not carry any voting rights.

SUBSTANTIAL SHAREHOLDERS

The Company's Register of Substantial Shareholders, prepared in accordance with Chapter 6C of the Corporations Act 2001, recorded the following information as at 7 October 2016:

Holder Name	Number of Shares	Class of Share	Percentage of Issued Capital
Wyllie Group Pty Limited	121,468,838	Ordinary	11.78%
Gunz Pty Limited <Gunz Superannuation Fund> and Stephen Mann	79,596,062	Ordinary	7.97%
Little Breton Nominees Pty Limited	78,409,274	Ordinary	7.85%

HOLDERS OF UNQUOTED EQUITY SECURITIES

	No. of holders	No. Issued
Series 1 Unquoted Convertible Notes, 5 cents, 31 March 2017 – first ranking security	83	119,422,000
Series 2 Unquoted Convertible Notes, 5 cents, 31 March 2017 – second ranking security	1	60,000,000

TWENTY LARGEST SHARE HOLDERS

The names of the 20 largest holders of fully paid ordinary shares as at 6 October 2016 are listed below:

	Name	Number of Shares	Percentage
1	Wyllie Group Pty Limited	121,468,838	11.78%
2	Gunz Pty Ltd <Gunz Superannuation Fund>	77,487,940	7.51%
3	Little Breton Nominees Pty Ltd <The Little Breton S/F A/c>	74,520,386	7.23%
4	Michael Fotios <Michael Fotios Family A/c>	42,483,843	4.12%
5	Petroe Exploration Services Pty Ltd	31,427,087	3.05%
6	HSBC Custody Nominees (Australia) Limited	29,365,877	2.85%
7	Mr Andrew Spencer <AJ Family A/C>	28,289,356	2.74%
8	GDR Pty Ltd <The Riley Super Fund A/c>	27,413,875	2.66%
9	Spring Eagles Farm Inc	23,262,813	2.26%
10	Mr Steven McAlpine & Mrs Sandra McAlpine <S&S McAlpine Discretion A/C>	22,069,779	2.14%
11	Oakmount Nominees Pty Limited <Narromine Super Fund A/c>	19,309,027	1.87%
12	Mr Damian Cifonelli	18,000,000	1.75%
13	Mr G Sharpless & Mrs J Sharpless <Sharpless Investment A/c>	16,992,632	1.65%
14	Estate Late John Greenhalgh	12,962,962	1.26%
15	Minsk Pty Limited	12,800,000	1.24%
16	Mr Wayne McGrath	12,710,800	1.23%
17	Sharic Superannuation Pty Ltd <Farris Super Fund A/c>	12,480,647	1.21%
18	Tarney Holdings Pty Limited <DP &FL Waddell Family A/c>	11,844,697	1.15%
19	J&M Binet Pty Ltd <J&M Binet Super Fund A/c>	10,854,483	1.05%
20	AM Riley Pty Ltd <AM Riley Super Fund A/c>	9,620,176	0.93%
		615,365,218	59.67%
		1,031,206,428	100.00%

TWENTY LARGEST LISTED OPTION HOLDERS

The names of the 20 largest holders of listed options to acquire fully paid ordinary shares as at 6 October 2016 are listed below:

	Name	Number of Shares	Percentage
1	Wyllie Group Pty Limited	37,959,012	14.28%
2	Little Breton Nominees Pty Ltd <The Little Breton S/F A/c>	27,971,325	10.53%
3	Gunz Pty Ltd <Gunz Superannuation Fund>	25,333,334	9.53%
4	Michael Fotios <Michael Fotios Family A/c>	16,179,422	6.09%
5	Petroe Exploration Services Pty Ltd	10,808,110	4.07%
6	HSBC Custody Nominees (Australia) Limited	10,804,486	4.07%
7	Mr Andrew William Spencer	10,536,268	3.97%
8	GDR Pty Ltd <The Riley Super Fund A/c>	8,566,836	3.22%
9	Spring Eagles Farm Inc	8,333,334	3.14%
10	Estate Late John Greenhalgh	6,481,481	2.44%
11	Oakmount Nominees Pty Limited <Narromine Super Fund A/c>	6,034,071	2.27%
12	Mr G Sharpless & Mrs J Sharpless <Sharpless Investment A/c>	5,310,198	2.00%
13	Beirne Trading Pty Limited	4,956,519	1.86%
14	Cazenove Pty Limited <Cardinal Provident Fund A/C>	4,166,667	1.57%
15	Jend Pty Limited <The Tilley Super A/c>	4,166,667	1.57%
16	Mr Wayne McGrath	3,972,125	1.50%
17	Tarney Holdings Pty Limited <DP &FL Waddell Family A/c>	3,701,468	1.39%
18	J&D Jansen <JJ Retirement Fund A/c>	3,273,506	1.23%
19	Mr Steven McAlpine	3,086,341	1.16%
20	J&M Binet Pty Ltd <J&M Binet Super Fund A/c>	3,000,000	1.13%
		204,641,170	77.00%
		265,759,522	100.00%

SHAREHOLDER INFORMATION

LARGEST HOLDERS (>20%) OF UNQUOTED EQUITY SECURITIES

Holder Name	Number of Convertible Notes	Class of Convertible Notes	Percentage of Convertible Notes
Wyllie Group Pty Limited	60,000,000	Series 2	100%

ASX WAIVERS

**(i) Date of Waiver: 21 October 2014
Wyllie Group New Convertible Notes.**

Principal Amount	\$3,000,000
Face Value	Each New Convertible Note has a face value of \$0.05.
Maturity Date	<p>The earlier of:</p> <ul style="list-style-type: none"> (a) 31 March 2017; (b) the date that is 14 days after the settlement of the sale of all of the Issuer's interest in the Fairway Project; or (c) any earlier date on which the Principal Amount is required to be repaid in full.
Coupon Rate	10% p.a.
Maturity Fee	<p>The higher of:</p> <ul style="list-style-type: none"> 10% p.a. accrued interest on the Face Value of the New Convertible Notes held; and the amount that equals 0.5% of the pre-tax proceeds received by the Company in relation to the sale of all of the Company's interest in the Fairway Project. 0.5% is the portion payable in respect of 60,000,000 New Convertible Notes. <p>For the avoidance of doubt, if Wyllie Group transfers some but not all of the New Convertible Notes to a new noteholder, the Maturity Fee payable to each noteholder will be adjusted accordingly. If Wyllie Group converts some or all of the New Convertible Notes, other than pursuant to an early redemption, the Maturity Fee payable will be adjusted accordingly.</p>
Security	The Convertible Notes will be secured by an equal second-ranking security interest over the Company's interest in the Fairway Project, via a security interest over all of the general and limited partnership interests in the TELA Garwood, LP. The full security will be extinguished when the New Convertible Notes are converted or repaid in full.
Conversion Ratio	Each New Convertible Note converts into 1 fully paid ordinary share in the Company.
Early Redemption	<p>In the event that the Company sells all of its interest in the Fairway Project, then the Company may redeem the Principal Amount of New Convertible Notes representing all or some of the New Convertible Notes held by the noteholder by giving the noteholder at least 20 business days prior notice. During the notice period, the noteholder may exercise the right to convert their New Convertible Notes into shares.</p> <p>On the redemption date, the Company must pay to the noteholder:</p> <ul style="list-style-type: none"> (a) the Principal Amount on all unconverted New Convertible Notes held by the noteholder on that date; (b) all unpaid accrued interest and the Overdue Interest (if any); and (c) the Maturity Fee.

ii) **Date of Waiver: 7 October 2016**
Secured Directors Loans

Loan	<p>\$145,000, comprising:</p> <p>(a) \$60,000 from Little Breton Nominees Pty Ltd (ACN 008 813 956) as trustee for The CKG Rowe Family Trust A/C. Little Breton Nominees Pty Limited is controlled by Mr Christopher Rowe and he is a beneficiary of The CKG Rowe Family Trust;</p> <p>(b) \$50,000 from Gunz Pty Limited (ACN 008 935 724) as trustee for the Gunz Superannuation Fund A/C. Gunz Pty Limited is controlled by Mr Stephen Mann and he is a beneficiary of the Gunz Superannuation Fund; and</p> <p>(c) \$35,000 from Petroe Exploration Services Pty Limited (ACN 081 252 780) as trustee for the Haaleroe Trust. Petroe Exploration Services Pty Limited is controlled by Mr Laurence Roe and he is a beneficiary of the Haaleroe Trust.</p>
Repayment Date	<p>The earlier of:</p> <p>(a) 31 March 2017; or</p> <p>(b) 5 business days after the date on which the Company receives notice from the lender of the occurrence of an event of default and declaring the outstanding monies immediately due and payable.</p>
Interest Rate	10% p.a.
Security	<p>The Director Loans are secured by an equal second-ranking security interest over the Company's interest in the Fairway Project, via a security interest over all of the equity ownership interests in Garwood. The full security will be extinguished when the Director Loans are repaid in full.</p> <p>In the event that a credit facility of not less than US\$5,000,000 is negotiated by Garwood with a US financial institution, the security will automatically become third ranking.</p>

CORPORATE GOVERNANCE

In March 2014, the ASX Corporate Governance Council released a third edition of the ASX Corporate Governance Council's Principles and Recommendations (ASX Principles).

The Group's Corporate Governance Statement dated 16 October 2016 (which reports against these ASX Principles) may be accessed from the Company's website at:

<http://www.targetenergy.com.au/viewStory/Corporate+Governance>

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