

Quarterly Report for the quarter ending 31 December 2014

- Darwin #4 drilled; Taree 193 #1 and BOA North #5 completed for production
- Fairway divestment plans deferred

1. Operations

Permian Basin, Texas

1.1. Fairway Project – Howard & Glasscock Counties (Target 35% - 60% WI)

1.1.1. Drilling

Darwin #4 (Target 60% WI)

Drilling commenced at **Darwin #4** in Howard County on 21 November 2014, with the well drilled to a Total Depth of 3,105m (10,188ft) and rig released on 18 December 2014 (Table 1). The well was completed for production and will be tested for Fusselman potential prior to deciding on the timing of a Wolfberry fracture stimulation.

Well Reporting Summary – Darwin #4	
Name and Type of Well	Darwin #4, Oil Development Well
Well Location	Howard County, Texas
Lease Description	S44 S/2, Block 33, T-1S, A-1292, T&P RR Survey
TEX Working Interest	60%
Report Date	8:00 pm 19/12/14 (Western Aust Standard Time) / 6:00 am 19/12/14 (USA Central Daylight Time)
Current Depth:	3,105.3m. All reported depths are measured below the Rotary Table (RT) on the rig floor.
Progress	Drill ahead to 1,307m (4,290 ft). Run and cement 8 5/8" casing. Drill ahead to 3,105m (10,188 ft). Run wireline logs. Run and cement production casing. Rig Released 18 Dec 2014.

Table 1



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1.1.2. Completions

BOA North #5 (Target 50% WI)

BOA North #5 was completed for production in the Fusselman Carbonate. Initial flows appeared to be drawing a large proportion of water from fractures extending deeper into the formation and work was undertaken to stem the flow of water. The well was put on pump on 7 January 2015, with oil and gas production commencing on 19 January 2015.

Well Reporting Summary – BOA North #5	
Name and Type of Well	BOA North #5, Oil Development Well
Well Location	Howard County, Texas
Lease Description	S12 , Block 33 T-2S, A-1353, T&P RR Survey
TEX Working Interest	50%
Geological Rock Type	Fusselman carbonates
Depth of Zones Tested	3,060 m
Type of Tests Undertaken	On pump
Duration of Tests Undertaken	96 hrs
Hydrocarbon Phases Recovered	Oil & Gas
Other recovery	Water
Choke Size Used	On pump
Flow Rates	Average 15 BOPD + 20 mcf/d + 456 BWPD (19-23 Jan 2015)
Number of Fracture Stimulations	None
Material Volumes of Non-Hydrocarbon Gases	Nil

Table 2

Taree 193 #1 (Target 50% WI)

A fracture stimulation was performed on the Taree 193 #1 well in Glasscock County on 21 November 2014. The seven stage program covered a gross interval of 780m using approximately 23,700 barrels of load water. The well was put on pump on 27 December 2014. Average flow in the first 10 producing days was 71 BOPD with 189 BWPD. Approximately 62% of the load water from the stimulation program has been recovered.

Well Reporting Summary – Taree 193 #1	
Name and Type of Well	Taree 193 #1, Oil Exploration Well
Well Location	Glasscock County, Texas
Lease Description	S193, Bl 28, A-815 and A-A483; W&NW RR Co Survey
TEX Working Interest	50%
Geological Rock Type	Wolfberry – carbonates, shales and minor sandstone
Depth of Zones Tested	2,100 – 2,900m
Type of Tests Undertaken	On pump on 27 December after fracture stimulation
Duration of Tests Undertaken	1 st ten producing days
Hydrocarbon Phases Recovered	Oil
Other recovery	Load Water (total load recovered on 11 Jan 2015: 63%)
Choke Size Used	On pump
Flow Rates	71 BOPD + 189 BWPD (Avge 27 Dec 2014 – 11 Jan 2015)
Number of Fracture Stimulations	7 zones stimulated
Material Volumes of Non-Hydrocarbon Gases	Nil

Table 3

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1.1.3. Forward Program

2015 Divestment

Scotia Waterous was appointed in December 2014 to assist with the proposed Q1 2015 Fairway divestment process. An evaluation of the asset in the light of the recent rapid fall in commodity prices concluded that a divestment at this time would not yield an optimal price and the Company has decided to defer the process pending the recovery of oil and gas prices.

2015 Drilling Program

In the light of the rapid fall in commodity prices, the Fairway partners have put the planned 2015 work program on hold.

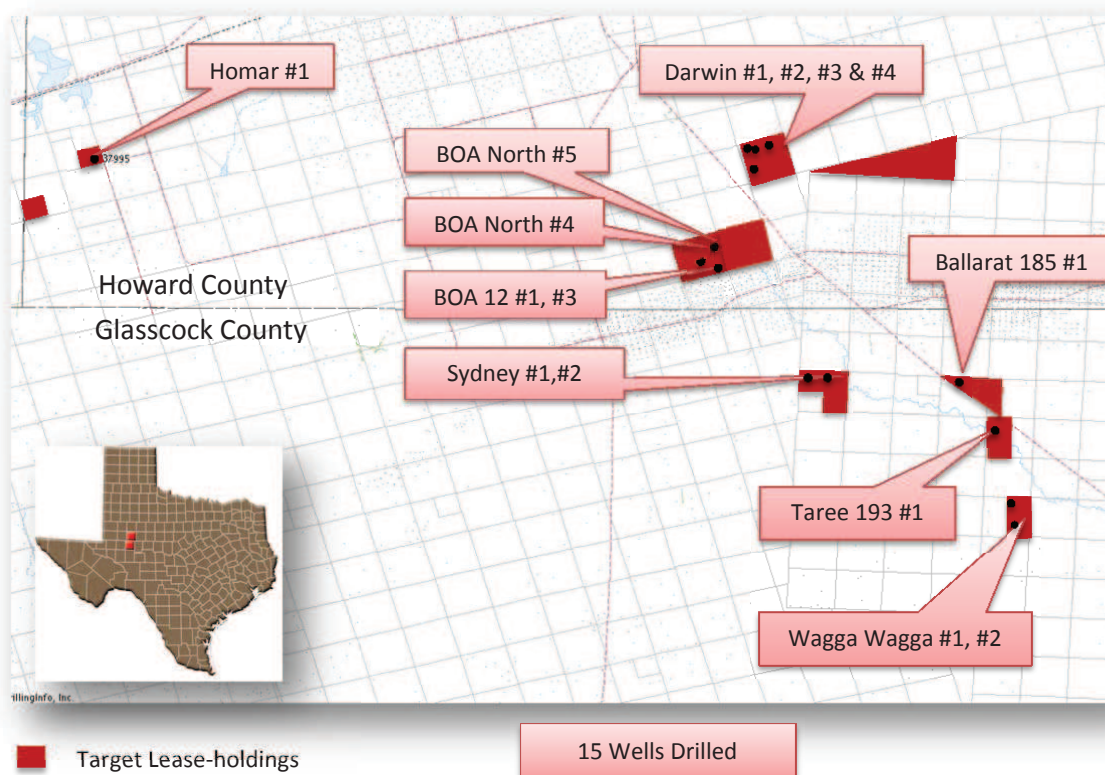


Figure 1: Target Energy Fairway Project lease-holdings.

1.1.4. Leases

As previously advised, recent title work in respect to the Sydney leases raised some issues regarding the exact working interests held by the individual partners, including Target. During the reporting period, an adjustment was applied to one of the leases, reducing Target's interest in that lease by approximately 9%.

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Louisiana

1.2. Section 28, St Martin Parish

1.2.1. Workovers

A workover on the SML #A3 well (Target WI: 25%) was successfully completed in December 2014. The well was recompleted for production from the 1st Marg Tex sand and is presently flowing approximately 500 mcfgd with 5 BOPD.

1.3. East Chalkley, Cameron Parish

1.3.1. Workovers

Workover operations are underway at the company's East Chalkley field.

The recent Pine Pasture #3 well was found to have a damaged pump as a result of a downhole filter screen failure which permitted sand from the formation and the completion program to pack around the pump, ultimately disabling the impeller. The screen and pump are to be replaced.

An inspection of casing in the Pine Pasture #2 well revealed a number of holes due to corrosion. Remedial work was undertaken on the Pine Pasture #1 well, which is being brought back on-line.

2. *Production (1 Oct – 31 Dec 2014)*

Project	TEX WI	Gross Gas Prod'n in Period (mmcf)	Cumulative Gross Gas Prod'n (mmcf)	Net Gas Prod'n in Period (mmcf)	Cumulative Net Gas Prod'n (mmcf)	Gross Oil Prod'n in period (BO)	Cumulative Gross Oil Prod'n (BO)	Net Oil Prod'n in Period (BO)	Cumulative Net Oil Prod'n (BO)
Section 28+	25%	19.6	2,410.5	4.9	602.6	105	91,514	26	22,878
E. Chalkley*	35%	0	60.0	0.0	21.0	0	115,511	0	40,429
Merta	25%	12.9	433.2	3.2	108.3	85	5,441	21	1,360
Fairway	35%-60%	27.9	271.0	14.6	156.9	16,902	153,780	8,344	87,200
Total		60.5	3,174.7	22.7	888.8	17,092	366,246	8,391	151,868

Wells were shut-in at Section 28 for part of the reporting period. East Chalkley was also shut in pending the field work-over program which is now underway. December production at Fairway was also adversely affected by severe winter weather.

Net Production is scaled to Target's Working Interest, before royalties; mmcf = million cubic feet; mmcfgd = million cubic feet of gas per day; BO = barrels of oil, BOPD = barrels of oil per day, BOEPD = barrels of oil equivalent per day (Target reports a thermal equivalent when combining gas and oil production, where 1BOE = 6 mcf).

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2. Lease Holdings

Target Energy	Lease Name	County / Ph	Description	Depth Limits	TEX WI	Gross Acres	Net Acres
Fairway							
	BOA / BOA North	Howard	S12 , Block 33 T-2S, A-1353, T&P RR Survey	None	50%	640.0	320.0
	Darwin	Howard	S 44 N/2, Block 33, T-1S, A-1292, T&P RR Survey	None	50%	320.0	160.0
			S44 S/2, Block 33, T-1S, A-1292, T&P RR Survey	None	60%	320.0	192.0
	Bunbury	Howard	S102 A-1405; S103 A-1405; S104 A-1495; Block 29 Waco & NW Survey	None	60%	918.0	550.8
	Ballarat	Glasscock	S 184 and 185, BI 28, A-815 and A-A483, Waco & NW Survey	None	50%	160.0	80.0
			S 184 and 185, BI 28, A-815 and A-A483, Waco & NW Survey	None	60%	195.7	117.4
	Taree	Glasscock	W/2 S193, BI 28, A-815 and A-A483, Waco & NW Survey	None	60%	320.0	192.0
	Sydney	Glasscock	E/2 S 188 Block 29 A-170 W&NW Survey	None	51%*	320.0	163.2
			NW/4 S 188 Block 29 A-170 W&NW Survey	None	60%	160.0	96.0
	"Section 4"	Howard	S4, Block 32, T-2-S, A-1354 T & P RR Co Survey	None	60%	440.0	264.0
	"Homar	Howard	SE/4 S24 BI 35 A-1538; T&P RR Co Survey	None	50%	100.0	50.0
	Homar (Robb)	Howard	SW/4 S26 BI 35 A-1415; T&P RR Co Survey	None	60%	160.0	96.0
	Wagga Wagga	Glasscock	E/2 S221, Block 29, A-496; W&NW RR Co Survey	None	35%	305.0	106.8
	Ballarat West	Glasscock	part NW/4 of S185, BI 29, W&NW RR Co. Survey	None	50%	123.9	62.0
Merta							
	Merta No. 1 Well Gas Unit No. 2	Wharton	S3 A-219 International and Great Northern RR Co Survey	7,650 ft - 7,880 ft	25%	303.0	75.7
Section 28							
SML #A-1, #A-3	Production Unit	St Martin Ph		None	25%	40.0	10.0
SML #A-2	Production Unit	St Martin Ph		None	25%	40.0	10.0
East Chalkley							
	Unit Agreement: CK W RA SU	Cameron Ph	S11, 13, 14 &15, T12S-R6W	8,000 ft - 10,000 ft	35%	714.9	250.2
*Refer to section 1.1.4					Total	5580	2796

3. Corporate

3.1. Capital Raising

3.1.1. \$3.0m secured, convertible note issuance

During the quarter, Target raised A\$3.0m by the issuance of secured Convertible Notes to its largest shareholder, Wyllie Group Pty Ltd.

The Company further advised that the ASX had granted a waiver from ASX Listing Rule 10.1 in relation to the October 2014 Convertible Notes. The Company had initially planned to sell the Fairway asset in the first quarter of 2015, which would have involved conversion or repayment of the October 2014 Convertible Notes and the discharge of the Wyllie Security, however as noted the Company has decided to defer the divestment process pending the recovery of commodity prices so this timeframe has been extended.

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3.1.2. Non-renounceable pro-rata entitlement issue

On 17 November 2014, Target completed a non-renounceable pro-rata entitlement issue (Entitlement Issue) raising a total amount of \$2,041,310.

Eligible shareholders were offered the right to subscribe for 1 new share in Target, for every 7 existing shares they held at the record date, at an issue price of A\$0.045 per share.

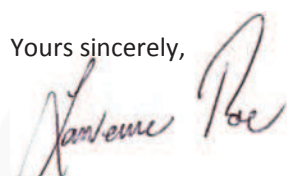
4. Disclosures

Disclosures Pursuant to ASX Waiver dated 6 November 2013							
2013 Convertible Notes		Face Value of 7c, maturity 1 October 2014					
No. Issued	Date of Issue	Face Value	No. Redeemed	Date of Redemption	Face Value	No. on Issue at 31 Dec 2014	No. that can be issued pursuant to shareholder approvals and ASX waiver dated 6 November 2013
14,285,714	25 Jul 2013	1,000,000	8,571,428	7 Mar 2014	600,000		
			5,714,286	11 Apr 2014	400,000		
11,428,572	15 Nov 2013	800,000	11,428,572	11 Apr 2014	800,000		
25,714,286		1,800,000	25,714,286		1,800,000	0	0

Early Redemption Options		Exercise price of 7 cents, expiry 1 October 2014			
No. Issued	Date of Issue	No. Expired	Date of Expiry	No. on Issue at 31 Dec 2014	No. that can be issued pursuant to shareholder approvals and ASX waiver dated 6 November 2013
8,571,428	7 Mar 2014	8,571,428	1 Oct 2014		
17,142,858	11 Apr 2014	17,142,858	1 Oct 2014		
25,714,286		25,714,286		0	0

For further information, please contact the company at admin@targetenergy.com.au.

Yours sincerely,



Laurence Roe
Managing Director

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 reporting of that information in the form and context in which it appears.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

TARGET ENERGY LIMITED

ABN

73 119 160 360

Quarter ended ("current quarter")

31 December 2014

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	603	1,534
1.2 Payments for (a) exploration & evaluation	-	-
(b) development	(4,944)	(8,292)
(c) production	(522)	(743)
(d) administration	(629)	(1,166)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	1	2
1.5 Interest and other costs of finance paid	(148)	(289)
1.6 Income taxes paid		
1.7 Other (provide details if material)		
Net Operating Cash Flows	(5,639)	(8,954)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects		
(b) equity investments		
(c) other fixed assets		
1.9 Proceeds from sale of: (a) prospects	-	601
(b) equity investments		
(c) other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)	(2)	(54)
Net investing cash flows	(2)	547
1.13 Total operating and investing cash flows (carried forward)	(5,641)	(8,407)

+ See chapter 19 for defined terms.

Appendix 5B**Mining exploration entity and oil and gas exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(5,641)	(8,407)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	2,041	2,041
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings	3,000	3,000
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other	(54)	(54)
	Net financing cash flows	4,986	4,986
	Net increase (decrease) in cash held	(655)	(3,421)
1.20	Cash at beginning of quarter/year to date	1,053	3,719
1.21	Exchange rate adjustments to item 1.20	47	147
1.22	Cash at end of quarter	445	445

Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	118
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	Directors' fees, salaries and superannuation	

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Not Applicable

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Not Applicable

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	8,971	8,971
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	-
4.2 Development	1,159
4.3 Production	185
4.4 Administration	455
Total	1,799

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	445	1,053
5.2 Deposits at call	-	-
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	445	1,053

Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed	Sydney Glasscock County E/2 S 188 Block 29 A-170 W&NW Survey	Joint Venture	60%	51%
6.2 Interests in mining tenements and petroleum tenements acquired or increased	Nil			

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference ⁺ securities (description)				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	499,687,480	499,687,480		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	45,940,892	45,940,892		
7.5 +Convertible debt securities (description)	119,422,000 10% coupon, expiry 31 March 2017 (total \$5.97m)	-	5 cents	5 cents
	60,000,000 10% coupon, expiry 31 March 2017 (total \$3.0m)	-	5 cents	5 cents
7.6 Changes during quarter (a) Increases through issues	60,000,000 10% coupon, expiry 31 March 2017 (total \$3.0m)	-	5 cents	5 cents
(b) Decreases through securities matured, converted	578,000 (10% coupon, expiry 31 March 2017)	-	5 cents	5 cents
7.7 Options (description and conversion factor)	-			
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter	<i>Options</i> 25,714,286 1:1 750,000 1:1	Nil Nil	<i>Exercise price</i> 7 cents 12 cents	<i>Expiry date</i> 1/10/2014 24/10/2014
7.11 Debentures (totals only)				
7.12 Unsecured notes (totals only)				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does ~~does not~~* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:



(~~Director~~/Company secretary)

Date: 30 January 2015

Print name: Rowan Caren

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.