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BLUE BOOK SERIES

Junior Resources

June 2008 Quarterly Review

EXTRACT

Storm clouds darkening and China slowing

Contents

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Target Energy Limited (TEX)



Sector
Energy

Industry Group
Energy

Company Overview

TEX listed in November 2006 with a plan to grow into a successful explorer/producer of oil and gas. The initial focus is the US, with experienced domestic JV partners. Exploration was successful, with three out of four wells in production. Assets are in Louisiana and Texas, where there is existing infrastructure and 3D seismic available for purchase and re-processing. As cash flow builds, TEX will seek new opportunities in other regions of the US. Management is achieving what it said it would.

Strategy

TEX partners with established and reputable operators who have successful track records in their areas of operations. The company looks for well-defined prospects and usually takes a working interest in the range of 10% to 25%. TEX's drilling portfolio is balanced, with prospect types varying from shallow low-risk features to high-risk/high-reward plays. The company will continue to pursue high-quality drilling opportunities to boost production and cash flow.

Aegis Comments as at July 2008.

Outlook: TEX has a 10%-25% working interest in wells in which it participates. These are significant interests for a junior explorer, balancing risk with reward. TEX is now positioning itself to move into production phase, with success at St Martin Parish, Louisiana. SML A2 well has been completed and is ready for production after flow testing gas rates up to 2.1 mmcfd. Beyt #1 has commenced production. The well was put online at an initial rate of 1 million cubic feet of gas per day.

Catalysts: TEX is producing from 5 of the 7 wells drilled to date. Drilling has started at the Bandito prospect and Catapult 3 is scheduled to begin in September 2008, targeting 10mmBC and 204Bcf of gas. Catapult 3 is adjacent to two wells tested with combined rates of 40mcf. It is a high-risk/high-reward play that TEX believes has genuine "company-making" potential. Two wells are scheduled for the December quarter, Snapper A-3 and Parks North, targeting combined 26Bcf gas, 1mmBO and 0.2mmBC.

Risks: US gas prices are volatile but are higher than those in Australia. Existing infrastructure is excellent in Texas and Louisiana. Producing wells can be connected to a pipeline and generate cash within a month. Companies exploring old fields for remnant accumulations of gas and/or oil have to work hard, and the gestation period for a positive operating cash flow after capex is uncertain. An element of share dilution is unavoidable. Risk and reward rise when wells include high-impact plays.

Earnings Summary

Yr to Jun	NPAT Rep \$M	NPAT ¹ Adj \$M	EPS ¹ c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2004A	0.0	0.0	0.0	n/a	0.0	0.0	0.0	0.0	0.0	0	n/a
2005A	0.0	0.0	0.0	n/a	0.0	0.0	0.0	0.0	0.0	0	n/a
2006A	0.0	0.0	0.0	n/a	0.0	0.0	0.0	0.0	0.0	0	n/a
2007A	(1.2)	(1.2)	(3.2)	n/a	(2.5)	(0.2)	(0.1)	0.0	0.0	0	(58.7)

¹ NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

Key investment information

Price:	\$0.08
Price as at:	11-Aug-08
Market Cap (\$M):	6.9
Equiv. Shares (M):	104.27
% All Ords:	0.00
12Mth Range (\$):	0.07 - 0.34
Shares Traded (\$M pa):	14.9
Listed since:	27 Nov 2006
Index:	n/a

Share price performance



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Financial Stability

Balance Sheet (Y/E Jun)

	06A	07A
Net debt (cash) (\$M)	0.0	(5.9)
Total assets (\$M)	0.0	8.5
Net debt/equity (%)	0.0	(69.3)
Net interest cover (x)	n/a	n/a
NTA per share (\$)	0.00	0.09
Current ratio (x)	0.0	66.0

As at 30-Jun-07

Net debt (cash) (\$M)	(6.0)
Net debt (cash) / shr (\$)	(0.06)
Net debt (cash) / MktCap (%)	(87.1)

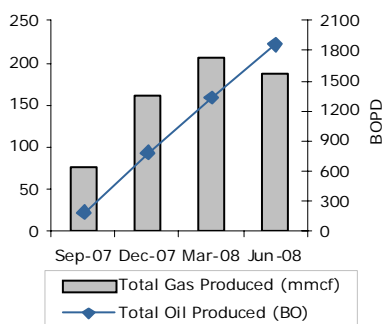
Substantial Shareholders

Petroe Exploration Services	7.4%
Hosier Investments	5.9%

Board

- L Roe (Director)
- P Lloyd (Director)
- M Martin (Director)
- D M Murcia (Director)

Production Chart



Source: TEX

Differentiating Factors

Within one year from listing on the ASX, TEX had four discoveries in its first five wells. The first three discoveries were in production and generating cash flow for the company within 10 months from listing. TEX has an active drilling calendar and will participate in a further five wells in 3Q07 and 1Q08. TEX has experienced management, a successful track record and will continue to grow its US portfolio via an active and diverse drilling program.

Achievements

TEX completed an IPO in 2006 and first gas discovery was only 3 months later, when Throughbred-1 tested 0.45mmcf/d. First production was 6 months after listing, and 3 months from when the first four wells were cased and suspended as producers. Snapper A-1 is producing oil and gas and Garwood gas. TEX is delivering on its objective to build a revenue stream from a balanced portfolio of exploration and producing assets. The challenge now is to generate operating cash flow to fund high-impact wells.

Recent Events

30 June 2008 – Quarterly Report: Total production for 4Q08 was 187.8mmcf of gas and 1,863bbl of oil. Gas production fell 9% on pp but this was more than offset by a 40% increase in oil production. This was the first period with production from Beyt #1 that accounted for 61% of oil produced. Beyt #1 started production in May. At East Chalkey, 9.4m of oil pay was intersected in Pine Pasture #2. The Vincent #1 well is underway at the Bandito prospect where TEX has a 15% WI in potential recoverable gas and condensate of 42.4Bcfe

30 June 2008 – Oil Strike at East Chalkey: Drilling at East Chalkey has reached total depth at 2,975.9m and wire line logging indicates the presence of oil pay. Initial log analysis has identified about 9.5m of net oil pay in the Alliance W2 sand at 2,923m, which is in line with management's pre-drill expectations. Additional potential pay has also been recognised in the above-lying Alliance W1 sands. The well is to be completed as an oil producer from W2 sand, with completion and flow-testing to commence in two weeks.

30 May 2008 – Bandito Drilling Commences: Target Energy has spudded the Vincent #1 well at the bandito prospect in Acadia Parish, Louisiana. The prospect is targeting up to 42.4Bcf of potential recoverable gas in Oligocene age "Bol mex" sands, and will be drilled to a depth of 3,932m. Target will earn a 15% working interest in the Bandito prospect. If successful, the prospect would significantly boost second-half cash flows. It is a well-defined prospect covered by quality 3D seismic. Drilling is expected to take approximately 5 weeks.

Capital Structure

TEX has issued 104.3M listed fully paid ordinary shares. There are 62.9M listed options (25 cents, 26.11.09) and 6M unlisted options (20 cents, 30.06.11).



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