

AUSTRALIAN

RESEARCH



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

Target partners with established and reputable operators who have demonstrated 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%. Target'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

Outlook: TEX has 10%-25% working interests in wells that it participates in. These are significant interests for a junior explorer, balancing risk with reward. JV partner in Texas, Everest Resource Co., used 3D seismic for the first three finds and is a successful explorer in the region. In Louisiana, St Martin Parish, TEX has agreements with Cypress Production Inc to drill in and around the Section 28 gas field, where reprocessing of 3D seismic revealed prospective targets. News flow should be positive.

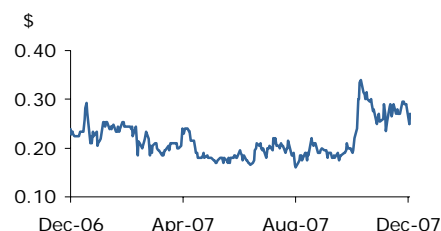
Catalysts: The program for 4Q07 is six wells. Snapper A-2 (earning 25%) is testing six potential pay zones with unrisks potential for 1mmb oil and 1.46Bcf gas. Berwyn (TBA) has potential for unrisks recoverable 305Bcfe. This volume of gas has a revenue value of over US\$1B. On a risk-adjusted basis, the drilling in 4Q07 will target 170Bcfe gas and 3Mb oil. Other wells are Teche, Bandito, Parks Nth and Snapper A-3. Given the success rate so far, there will be more successes in 2007 for re-rating.

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 rises when wells include high-impact plays.

Key investment information

Price:	\$0.27
Price as at:	18-Dec-07
Market Cap (\$M):	29.4
Equiv. Shares (M):	108.80
% Market:	0.00
12Mth Range (\$):	0.16 - 0.34
Shares Traded (\$M pa):	20.5
Listed since:	27 Nov 2006
Index:	n/a

Share price performance



Company contact



Laurence Roe
Managing Director
laurence.roe@targetenergy.com.au
61 8 9476 9000

www.targetenergy.com.au

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	(8.4)	(0.5)	(0.3)	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.

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)	(5.9)
Net debt (cash) / shr (\$)	(0.05)
Net debt (cash) / MktCap (%)	(42.1)

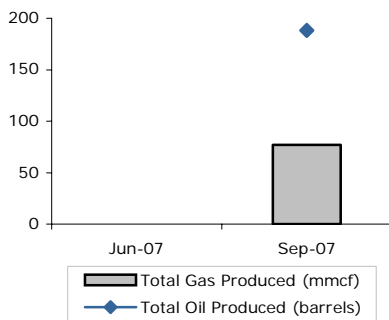
Substantial Shareholders

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, Target 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. Target has an active drilling calendar and will participate in a further five wells in 3Q07 and 1Q08. Target Energy has an 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 2006 and the first gas discovery was only 3 months later when Throughbred-1 tested 0.45mmcf. 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.

Current Projects

Colorado County, Texas: Two gas discoveries: Thoroughbred-1 was drilled in March 2007 and commenced production in June; and Garwood-1 was drilled in June and commenced production in September. Target has a 25% working interest in both wells, which are presently producing approximately 550mmcf/d.

St Martin Parish, Louisiana: Five-well programme as follows:

- The first well, Snapper A-1, was a discovery, encountering 4 pay zones and currently producing at a rate of around 1.3 mmcf/d with 5bcfd (TEX WI: 25%).
- The second well, Snapper A-2, drilled in November (TEX WI: 25%) (1mmbo, 1.4Bcf) with 28.7m of oil and gas pay.
- Drilling at the 1.8mmbo Bayou Berard prospect (TEX WI: 15%) to commence in December.
- Snapper A-3 (4Bcf, 0.7mmbo) and Parks North (25Bcf) will be drilled late in 4Q07 or 1Q08 (TEX WI: 25% and 10%, respectively).

Evangeline Prospects, Louisiana: Two-well programme as follows:

- Teche prospect (TEX WI: 10%) to test up to 22Bcfe.
- Bandito prospect (TEX WI: 15%) to test up to 42Bcfe.

Teche commenced drilling in late November 2007. Bandito is scheduled for 1Q08.

Capital Structure

TEX has 55.6M listed fully paid ordinary shares on issue plus 12.4M unlisted shares. There are 40M unlisted options: 6M 20-cent expire on 30/06/2011 and 34M 25-cent expire on 26/11/2009.



Level 6, 33 York Street
Sydney NSW 2000 Australia
Locked Bag 7 Australia Square
Sydney NSW 1215
Phone 61 2 8296 1100
Fax 61 2 9299 3777
ABN 72 085 293 910
www.aer.com.au