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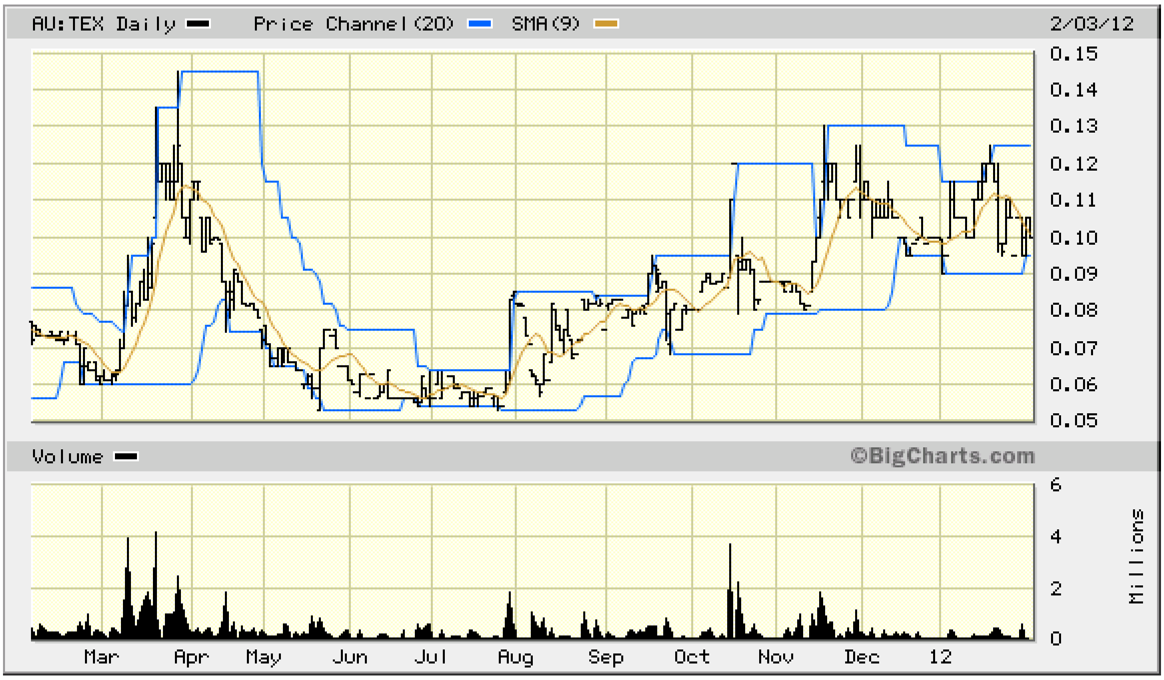
DAILY RESOURCES BULLETIN by Gavin Wendt

Friday 3rd February, 2012

Target Energy – meeting with MD Laurence Roe before his departure to Houston

We've covered **Target Energy (ASX: TEX, Share Price: $0.10, Market Cap: $33m)** on several occasions over the past six months. What attracted us to the company in the first place was the quality of the company's USA petroleum acreage and the busy work program the company has in place. The market also appreciated the company's potential, reflected in the company's rising share price during the second half of 2011, clearly visible in the chart below.



Unfortunately, the has lost a portion of its share market momentum over the past few months as a result of technical issues that have hampered its appraisal drilling and testing program. Fortunately, the company remains on track in terms of its strategy and the recent price pull-back represents a buying opportunity that we hope to take advantage of during the coming weeks.

My confidence in the company's progress has been reassured following a meeting that I had in Sydney today (Friday) with Target's Managing Director, Laurence Roe, who was head back within the next 24 hours to the company's Houston office, where he's now more or less permanently based.

As a reminder, Target is a modestly-valued junior oil play that has encountered potential oil and gas pay zones in all primary and secondary target reservoirs within its first well in its current West Texas drilling program in the USA. The current activity is hosted within the company's Fairway Project, which comprises a sizeable acreage package of 2,553 acres, with Target holding a large 60% working interest in the project. Other participants in the fairway project comprise Trilogy Operating (30%) and Avalon Oil (10%).

The key attraction of the Fairway project is that it's hosted within the Permian Basin, which boasts an outstanding oil discovery success rate. Located principally in western Texas, the Permian Basin is one of the most prolific oil-producing basins in North America. Not surprisingly, this has led to the area being targeted by many of the USA's leading petroleum companies.

The primary targets within the current well comprise the Wolfberry interval, along with the deeper Fusselman Formation. The Wolfberry is the primary target, as it is considered to have the potential to be a company-maker. Importantly, there are up to 64 drilling locations within the Fairway project area, each with potential recoverable reserves estimated at up to 180,000 barrels of oil equivalent.

The Wolfberry play, originally named because of the combination of hydrocarbon production from the separate Wolfcamp and Spraberry Formations, is a major low-permeability oil play within the Permian Basin. The Wolfcamp interval lies stratigraphically below the Spraberry Formation, and is in itself a significant producer within the Permian Basin.

The largest accumulation of oil and gas reserves within the Permian Basin is found within the Spraberry trend, which encompasses an overall area of ~2,500 square miles and covers large sections of six counties. The Spraberry trend ranks third in the USA in terms of total proved reserves and seventh in terms of total petroleum production.

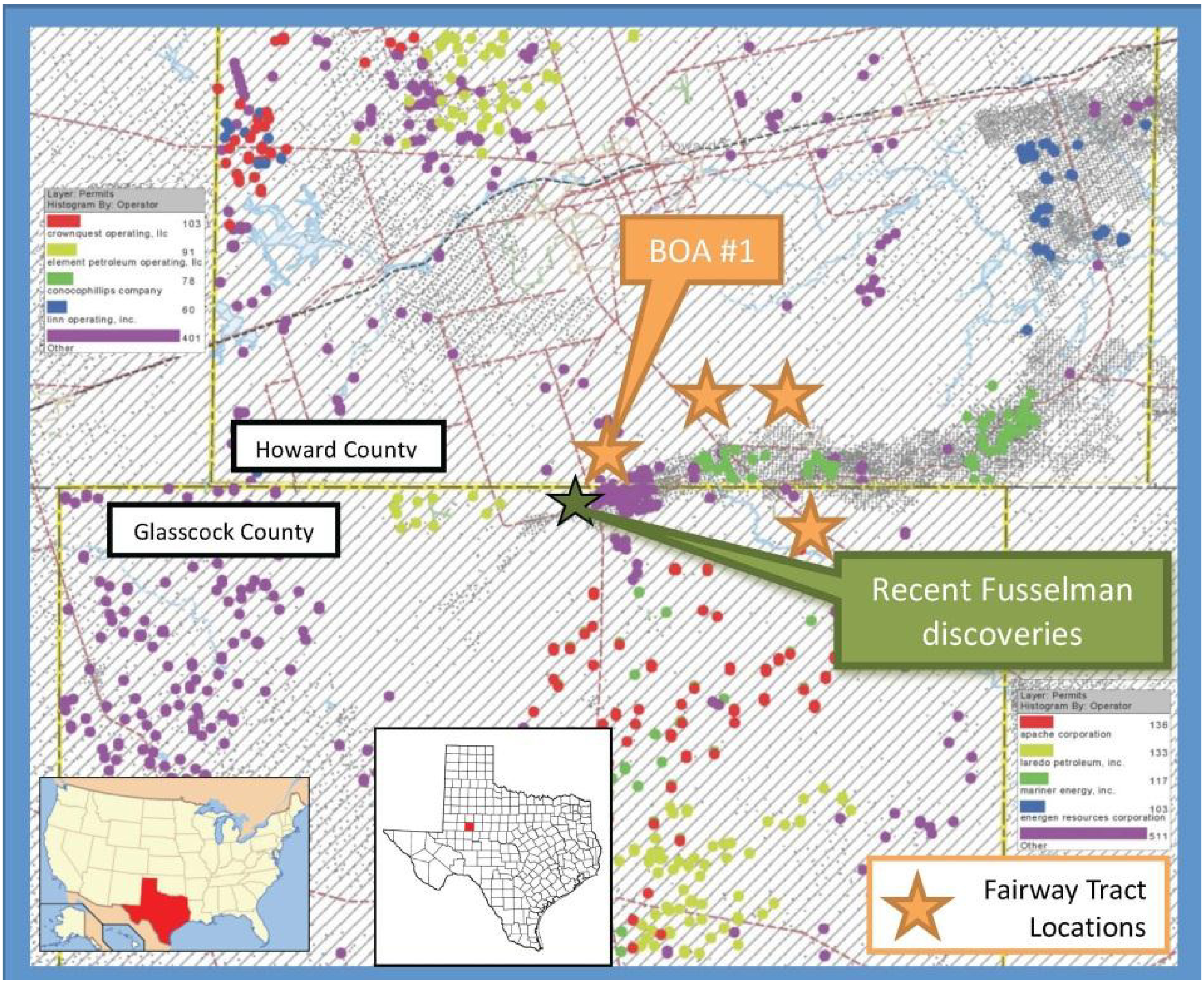
The biggest game-changer for companies wanting to exploit these prospective petroleum-bearing horizons has been the overall advancements in completion methods. These advances have made it possible to combine production from the Spraberry and Wolfcamp zones in areas that were previously uneconomic on a standalone basis.

In fact, things have evolved to such an extent that zones lying below the deeper Wolfcamp horizon are now being targeted for exploitation.

Several senior oil and gas producers, such as Concho Resources, St. Mary Land and Exploration, Pioneer Natural Resources, Oxy USA, ExL Petroleum, Mariner Energy, and Cambrian Management, are actively developing the Wolfberry. In fact more than 2,000 wells have been drilled since late 2007, which is when the play type first began to be exploited.

In terms of recent activity, things started well for Target during Q3 2011 with the drilling of the first well in the company's current program, BOA 12 #1. The well commenced drilling during September and took about a month to reach its programmed total depth of ~3,170 metres. Encouragingly, the well was drilled through a 1,080-metre section of the Wolfberry zone that exhibited numerous hydrocarbon shows whilst drilling.

Based on its pre-drill and testing information, Target believes a discovery could initially produce at rates of between about 100-150 BOPD.



Processing of the log data was completed, along with fracture stimulation on all eleven separate zones within the Wolfberry Formation. Flow-testing however was compromised by the influx of formation water during the test which is believed to be related to a technical issue. Unfortunately this has delayed the flow-testing program and resulted in the coming losing time and share market momentum.

The good news is that flow-testing is expected to resume shortly and results should begin to flow before the end of February. The results of course will be keenly anticipated and share price momentum should once again begin to build.

Logs have also confirmed that the well intersected potential oil pay over a 5-metre interval within the deeper Fusselman formation and at a depth of ~1,312 metres through the shallower San Andres formation (the San Andres is the main producing horizon in the adjacent Howard Glasscock field). The company is seriously considering the drilling of a separate twin well to independently test the San Andres section.

As we discussed earlier, up to 64 wells can be drilled on Target's Fairway acreage on a typical 40-acre spacing. But this could be increased further as a result of a decision by the Railroad Commission of Texas (the regulator of oil and gas activities in Texas) to halve the minimum drill spacing to 20 acres on the Spraberry Trend at Wolfberry.

Up to 128 wells could therefore be drilled within Fairway, potentially doubling the value of the asset for the company. Some companies in the area are also investigating horizontal drilling and the merits of water flooding in the Wolfberry to further increase recovery rates.

Estimated Timing	Prospect	Location	Target Working Interest	Potential Recoverable Volumes
Underway	1st Buffalo Frac	South Texas	100%BPO 50% APO	
August 2011	Fairway #1	Glasscock Co, Tx	60%	180 – 220 mBO
Q3/Q4 2011	2nd Buffalo Frac	South Texas	100%BPO 50% APO	
Q4 2011	Shepard's Channel	La Fourche Parish, La	7%	120 Bcf
Q4 2011	Fairway #2 - #4	Howard/Glasscock Co	60%	180 – 220 mBO
Q3/Q4 2011	East Chalkley PP#3	Cameron Parish, La	35%	250 – 450 mmBO

BPO: before pay out (of Target's costs); APO: after payout (of Target's costs)

Target holds various other projects within Texas and Louisiana that are at varying stages of development, with the company producing oil and gas on a modest scale. Target held $1.2m cash as at the end of the December Quarter, although the conversion of options during the course of H1 2012 is anticipated to add a few million dollars to the company's coffers.

I'll be monitoring progress on Target Energy's BOA 12#1 well closely. The company's modest market value in combination with relatively low-cost (but high-impact) wells means the company offers what I consider to be the right balance of risk-reward for investors. The recent share price pull-back on the back of delays to the flow-testing program provides a nice entry point and I'll be looking to introduce the stock to our Portfolio via a recommendation in our Weekly Report over the coming weeks.

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