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Initiating Coverage
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Australia
Energy

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Sales & Trading 888-543-4448

Price	AUD0.06
52 Week Range	(AUD0.05 - AUD0.12)
Market Cap (mil)	AUD27.23
Exchange rate	1US$ = 1.06 AUD
Shares out (mil)	453.75
3-Mo Avg Vol	94,464
Cash per share	AUD0.00
Total Debt (mil)	AUD0.00

Price: Market price represents yesterday's closing price.

EPS AUD

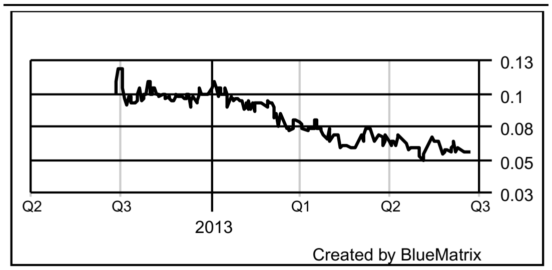
Yr Jun	2011A	2012A	2013A
	Actual	Curr	Curr
YEAR	(0.01)A	(0.01)A	(0.00)A

Revenues (millions) AUD

Yr Jun	2011A	2012A	2013A
	Actual	Curr	Curr
YEAR	1A	1A	2A

FCF AUD

Yr Jun	2011A	2012A	2013A
	Actual	Curr	Curr
YEAR	0.00A	0.00A	(0.00)A



Target Energy Ltd
(Ticker: TEX AU — AUD0.06)

Not Rated

Building an Permian-Based E&P Company

Target Energy Limited ("Target") is an Australian-listed E&P with operations primarily focused on the Permian Basin of West Texas. To date, the company has established a small but attractive leasehold in the heart of the Permian Basin surrounded by larger, well-established oil and gas producers. The Permian Basin is one of North America's most active development region, mainly due to its oily product mix and multiple stacked development objectives that exist from numerous geologic horizons ranging from 2,000 – 10,000 feet deep. Target's vertical development strategy of the Wolfberry and Fusselman zones will allow the company to grow reserves and production, while retaining the future rights to drill zones that are now being developed horizontally by larger companies. Outside the Permian Basin, the company sees meaningful upside potential by implementing a waterflood in the East Chalkley Field in Cameron Parish, Louisiana.

Proved reserves are concentrated in the Fusselman zone. The majority of Target's 2.0MMBOE estimated 3P reserves at June 30, 2013 are from wells with completions in the Fusselman horizon in the Permian Basin at a depth of about 9,500-10,000 feet. EURs in the Fusselman horizon range from 130-160 MBOE for 26 PUD, probable and possible well locations, based on estimates by the company's third-party reserve engineer. A low development cost of $1.8MM per well or about $15-$18/BOE on a unit basis combined with an oily product composition (~86% oil) make these drilling prospects economically attractive with estimated ROI's of ~70% or higher and IRR's of 60% or higher using a $90/BBL benchmark oil price deck.

Wolfberry upside is excluded from the most recent reserve report. Excluded from the company's June 30 reserve report are 110 potential vertical well locations in the Wolfberry Shale formation that is situated between ~5,000-8,300 feet deep on the company's Permian Basin leasehold. The Wolfberry has been drilled extensively on a vertical and horizontal basis in the Permian Basin, with EURs typically ranging from 100-150 MBOE in vertical wells. At the low end of the EUR range, Target's prospective Wolfcamp well inventory results in 5.0MMBOE of potential recoverable resources.

Upside potential from waterflood at East Chalkley looks promising. Potential recoverable resources at the East Chalkley Field in Cameron Parish, Louisiana are estimated at 1.7 MMBO gross (595 MMBOE net to Target), based on a study by Risc Pty Ltd, an oil and gas advisory firm. This estimate is meaningfully higher than the 86 MBOE of net 3P reserves the company booked in its June 30 reserve report. Target believes it could realize much of the potential identified in the Risc report by implementing a waterflood in the field. By placing waterflood injector wells in the down dip part of the field, the company believes that recoveries could be enhanced by increasing reservoir pressures and moving oil from an undeveloped section of the field to a developed area with producing wells.

Target shares trade below our estimated NAV of US $9.29 for TEXQY shares (AU$ 0.10 for TEX.AX shares). This includes US$ 3.05 for proved reserves adjusted for balance sheet items, $US 1.57 for probable and possible reserves and $US 4.86 for potential resources from 110 prospective Wolfcamp well locations and a waterflood development at East Chalkely Field. The company is early on in the development of Permian Basin development. Realizing the value in our NAV will depend on the companies continued success in the Permian Basin development and the pace of development.

Investment Summary:

Target Energy Limited ("Target") is an Australian-listed E&P with operations primarily focused on the Permian Basin of West Texas. To date, the company has established a small but attractive leasehold in the heart of the Permian Basin surrounded by larger, well-established oil and gas producers. The Permian Basin is one of North America's most active development region, mainly due to its oily product mix and multiple stacked development objectives that exist from numerous geologic horizons ranging from 2,000 – 10,000 feet deep. Target's vertical development strategy of the Wolfberry and Fusselman zones will allow the company to grow reserves and production, while retaining the future rights to drill zones that are now being developed horizontally by larger companies. Additionally, the company sees meaningful upside potential by implementing a water flood in the East Chalkley Field in Cameron Parish, Louisiana.

Target's Permian leasehold.

Target's Permian leasehold consists of 4,529 gross (2,672 net) acres in Howard and Glasscock Counties, Texas, as shown in Figure 1. Development activities are operated by Midland, TX-based Trilogy Operating, Inc. (privately held) even though Target retains a high net working interest of 60% in the leasehold. The company's leases are surrounded by operations of larger companies, such as Laredo Petroleum (NYSE: LPI, $US 29.32, not rated), Apache Petroleum (NYSE: APA, $US 87.37, not rated), Cobra Oil and Gas (privately held), CrownQuest Operating Company (privately held) and LINN Energy (NASDAQ: LINE, $US 25.83, not rated). These operators are actively drilling vertical and horizontal wells in the Wolfcamp and Spraberry formations (aka the Wolfberry when commingled in both formations), the Cline and the Fusselman formations, which are depicted in the geologic section in Figure 2.

Target's Permian Strategy.

In the near-term, Target plans to focus on development of the Fusselman horizon, where it has identified 26 (15.6 net) PUD, probable and possible well locations. The company has budgeted for $US 5.0MM of capex over the first half of fiscal 2014, with most of the funds allocated to drill the Darwin #3 well, the Darwin #4 well, the Sidney #2 well and the Sidney #3 well, all of which will be completed in the Fusselman zone. Once the Fusselman zone is depleted in these wells, the company can re-enter wells and complete the Wolfcamp zone. The company believes that the Wolfcamp could be recompleted in most, if not all, the Fusselman wells, accounting for 26 gross (15.6 net) wells in the company's 110 gross (66 net) Wolfcamp well inventory. The Wolfcamp also acts as a bailout zone if the Fusselman doesn't work. At some point, we may see the company pursue horizontal development in the Cline formation, which is also actively being developed by some nearby operators.

Proved reserves are concentrated in the Fusselman zone.

The majority of Target's 2.0MMBOE estimated 3P reserves at June 30, 2013 are from wells with completions in the Fusselman horizon in the Permian Basin at a depth of about 9,500-10,000 feet. EURs in the Fusselman horizon range from 130-160 MBOE for 26 PUD, probable and possible well locations, based on estimates by the company's third-party reserve engineer. A low development cost of $1.8MM per well or about $15-$18/BOE on a unit basis combined with an oily product composition (~86% oil) make these drilling prospects economically attractive with estimated ROI's of ~70% or higher and IRR's of 60% or higher using a $90/BBL benchmark oil price deck.

Wolfberry upside is excluded from reserve report.

Excluded from the company's June 30 reserve report are 110 potential vertical well locations in the Wolfberry Shale formation that is situated between ~5,000-8,300 feet deep on the company's Permian Basin leasehold. The Wolfberry has been drilled extensively on a vertical and horizontal basis in the Permian Basin, with EURs typically ranging from 100-150 MBOE in vertical wells. At the low end of the EUR range, Target's prospective Wolfcamp well inventory results in 5.0MMBOE of potential resources. As a resource play, the Wolfberry provides for a more extensive and repeatable project inventory than the conventional Fusselman formation at slightly higher estimated development cost of $18-$28/BOE. With lower risk, the returns still look attractive with ROI's of ~55% and IRR's of 50% at $90/BBL benchmark prices, based on our type-curve model.

Upside potential from water flood at East Chalkley looks promising.

A 2012 resource study of the East Chalkley Field by Risc Pty Ltd, an oil and gas advisory firm, identified 1,700 MBOE gross recoverable resources, including 595 MBOE w.i./410 MBOE n.r.i. for Target Energy's 35% w.i./69% n.r.i. in the field. This estimate is about 324 MBOE higher on a n.r.i. basis than the 86 MBOE of 3P reserves the company reported in its fiscal 2013 year-end reserve estimates on June 30, 2013. The Risc resource estimate includes contingent resources, which are technically recoverable but lack a firm development plan that is needed for the resources to be categorized as part of proved reserves. Most of the contingent resources lie in the portion of the field that on the down dip side of existing production wells. In order to recover production from this part of the field, Magnum Hunter (NYSE: MHR, $5.50, not rated), the field operator, and Target Energy have contemplated drilling a waterflood injection wells in the down dip portion of the field near the Lacassane #14 well, shown in Figure 3. A waterflood operation would likely increase reservoir pressure, accelerate production, and move oil from the undeveloped part of the field to the developed area with producing wells. The current development of the field consists of 3 producing wells, including Pine Pasture #1, the Pine Pasture #2 and Pine Pasture #3. Currently, Pine Pasture #2 is the only well that is on production at a gross rate of about 122 BOEPD or ~29 BOEPD net to Target's 35% w.i./69% n.r.i., based on 4Q13 average production rate. Pine Pasture #1 is shut in due to a hole in the tubing, and is now awaiting a workover to fix the problem. Pine Pasture #3 was recently completed and is expected to be put on production in the coming days. Initially, East Chalkley Field was developed as a gas field. Current operations are focused on a pressure depleted liquid zone with a low oil cut. Since 2008, the Pine Pasture 1 & 2 wells have produced about 104 MBOE from the depleted oil/water zone in the field. The completed well costs runs about $3.0 MM for a well in the liquid part of the field.

Capex, Development, Production and Cash Flow Considerations

Target's fiscal 2014 capex budget of $US 5.0MM for the first six months of the year is funded by $1.7MM from a convertible note, a $US 1.5MM cash balance and $3.5 MM of cash flow from operations before G&A expense. The budget is mainly allocated to drilling and completing 4 gross (2.4 net) wells in the Fusselman horizon on the company's Permian leasehold and completion of the Pine Pasture #3 well in the East Chalkley field. During fiscal 4Q13, the company recorded average production of 292 BOEPD gross (~215 net BOEPD). We expect production company-wide to increase materially in fiscal 2Q14 after the company brings on-line the Pine Pasture #3 well at East Chalkley and the Darwin #3 well in the Permian Basin in the coming days. Management estimates it is generating about $400,000/month before G&A costs, which should increase as new wells are brought online. Annual G&A costs are running about US$ 1.6MM - $US 1.8MM.

Valuation:

Target shares trade below our estimated NAV of US $9.29 for TEXQY shares (AU$ 0.10 for TEX.AX shares). This includes US$ 3.05 for proved reserves adjusted for balance sheet items, $US 1.57 for probable and possible reserves and $US 4.86 for potential resources from 110 prospective Wolfcamp well locations and a waterflood development at East Chalkely Field, as shown in Figure 4. The company is early on in the development of Permian Basin development. Realizing the value in our NAV will depend on the companies continued success in the Permian Basin development and the pace of development.

Risks to achievement of target price:

Actual results may differ from internal and third-party engineering estimates. Most of the company's upside potential consist development of Fusselman and Wolfcamp zones in the Permian Basin of West Texas. Well performance can vary considerably from location to location and may be different from what is modeled by the company's independent reserve engineer.

Target may need to raise equity to fund future development operations. As an emerging E&P with limited production, cash flow and reserves, the company may need to raise equity capital to fund future drilling operations. Currently, the company's capex budget appears to be funded for the next six months.

As a non-operator, the company may not have control over the cost and pace of its development projects . Non-operators typically trade at a valuation discount to peer companies for this reason.

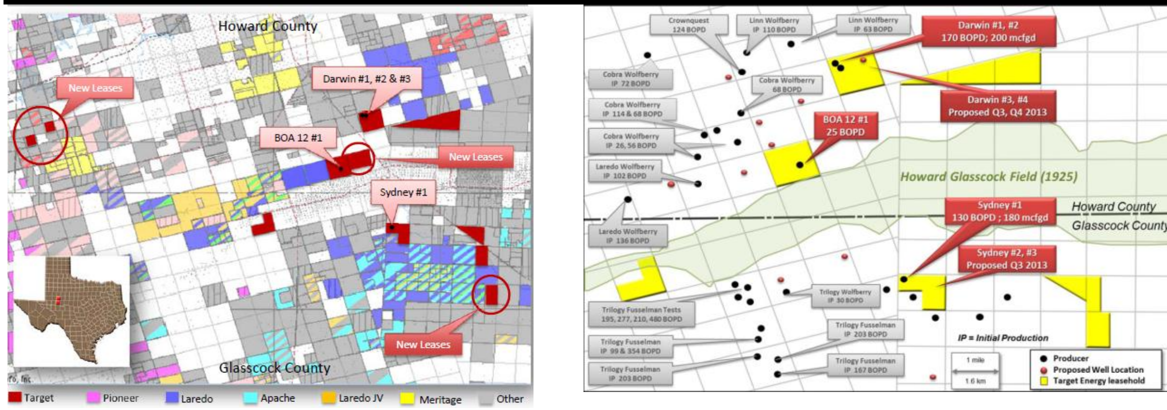
Relatively low trading liquidity. Investor may not be able to build or a reduce a position in the shares quickly.

Concentration Risk: The company's reserve and production are based on a few wells and the company's financial and operational position could be negatively impacted if operations in one or a few wells are shut in or underperform.

Company description:

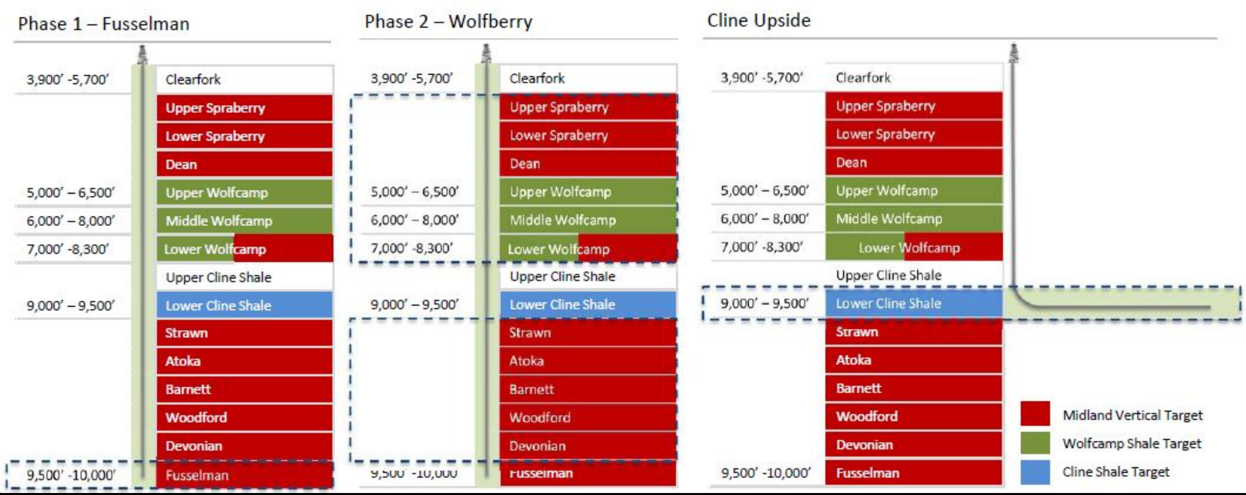
Target Energy is an Australian-listed oil and gas company that operates in the U.S. The company reported 3P reserves of ~2.0MMBOE (80% oil, 20% natural gas) at June 30, 2013 and ~215 BOEPD (61% oil, 39% natural gas) of net production during fiscal 4Q13 (ending June 30, 2013) on a net revenue basis. Target's main operations are in the Permian Basin where the company develops the Fusselman and Wolfcamp horizons on its 4,529 gross (2,672 net) non-operated leasehold. The company is also contemplating the initiation of a water flood operation in the East Chalkley Field in Cameron Parish, Louisiana.

Figure 1: Vicinity Maps of Target's Permian Basin Leasehold and Nearby Operators



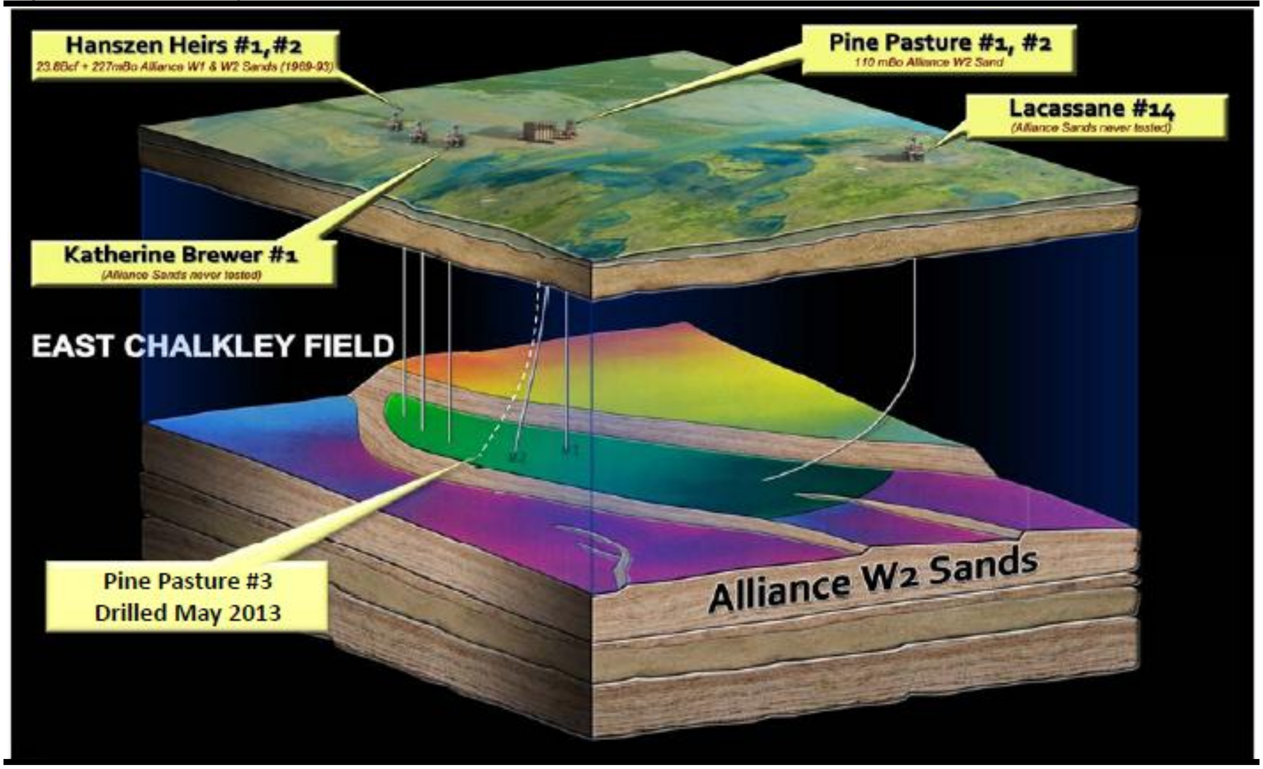
Source: Company Reports; Euro Pacific Capital Estimates.

Figure 2: Geologic Cross Section in Permian Basin Oil and Gas Development Area



Source: Company Reports; Euro Pacific Capital Estimates.

Figure 3: East Chalkley Field in Cameron Parish, Louisiana



Source: Company Reports; Euro Pacific Capital Estimates.

Figure 4: NAV Estimate

PROVED RESERVES:	Equiv. (MBOE)	% PD	% Oil	Risk Multiplier	Risked Equiv. (MBOE)	Valuation ($AUD/BOE)	($AUD M)	TEX.AX ($AUD/SHARE)	TEXQY ($USD/SHARE)
Permian	502	23%	83%	100%	502	$20.00	$10,049	$0.02	$1.91
East Chalkley	53	100%	86%	100%	53	$8.00	$426	$0.00	$0.08
Gulf Coast	55	43%	22%	100%	55	$4.00	$221	$0.00	$0.04
	611	32%	78%	100%	611	$17.50	$10,697	$0.02	$2.03
BALANCE SHEET ADJUSTMENTS:									
Working capital							$1,500	$0.00	$0.28
Debt							($1,800)	($0.00)	($0.34)
Proceeds from exercise of options							$4,680	$0.01	$0.89
							$4,380	$0.01	$0.83
								TEX.AX	**TEXQY**
PROVED RESERVE VALUE (including Balance Sheet adjustments)							**($AUD M)**	**($AUD/SHARE)**	**($USD/SHARE)**
Total Value ($ MM)							**$15,077**	**$0.03**	**$3.05**
POTENTIAL RESERVE & RESOURCE VALUE:									
PROBABLE & POSSIBLE RESERVES:	**Equiv. (MBOE)**	**% PD**	**% Oil**	**Risk Multiplier**	**Equiv. (MBOE)**	**Valuation ($AUD/BOE)**	**($AUD M)**	**TEX.AX ($AUD/SHARE)**	**TEXQY ($USD/SHARE)**
Permian	1,261	0%	83%	50%	631	$12.50	$7,883	$0.02	$1.50
East Chalkley	33	0%	86%	50%	16	$8.00	$131	$0.00	$0.02
Gulf Coast	119	0%	51%	50%	60	$4.00	$238	$0.00	$0.05
	1,413	0%	81%	50%	707	$11.68	$8,252	$0.02	$1.57
POTENTIAL RESOURCES	**Equiv. (MBOE)**	**% PD**	**% Oil**	**Risk Multiplier**	**Equiv. (MBOE)**	**Valuation ($AUD/BOE)**	**($AUD M)**	**TEX.AX ($AUD/SHARE)**	**TEXQY ($USD/SHARE)**
Permian Region	4,950	0%	86%	40%	1,980	$12.50	$24,750	$0.05	$4.70
East Chalkley	325	0%	86%	50%	163	$5.00	$813	$0.00	$0.15
	5,275	0%	86%	41%	2,143	$11.93	$25,563	$0.05	$4.86
								TEX.AX	**TEXQY**
TOTAL NET ASSET VALUE							**($AUD M)**	**($AUD/SHARE)**	**($USD/SHARE)**
Total Value ($ MM)							**$48,891**	**$0.10**	**$9.29**

ASSUMES:		Strike	Proceeds	
Shares count	Shares	Price	($ M)	1 TEXQV Share = 100 TEX.AX Shares
Basic	453.7			1 AUD = 0.94 USD
Options 1	40.4	$0.10	$4,040	
Options 2	0.8	$0.80	$640	
	494.9		$4,680	

Source: Company Reports; Euro Pacific Capital Estimates.

Figure 5a: Historical Financial and Operational Results

Period Ending	2011A (6/30/11)	1Q12A (9/30/11)	2Q12A (12/31/11)	3Q12A (3/31/12)	4Q12A (6/30/12)	2012A (6/30/12)	1Q13A (9/30/12)	2Q13A (12/31/12)	3Q13A (3/31/13)	4Q13A (6/30/13)	2013A (6/30/13)
OPERATIONAL INFORMATION											
Daily Production:											
Oil (BOPD)	31	49	49	46	33	44	26	33	92	179	82
growth %			*1%*	*-7%*	*-28%*	*41%*	*-20%*	*25%*	*180%*	*95%*	*87%*
Gas (MCFPD)	243	228	270	309	204	252	209	170	427	678	370
growth %			*18%*	*14%*	*-34%*	*4%*	*3%*	*-19%*	*151%*	*59%*	*47%*
Equiv. (BOEPD)	72	87	94	97	67	86	61	61	163	292	144
Equiv. (MCFEPD)	431	521	566	582	402	517	367	368	980	1,755	864
growth %			*8%*	*3%*	*-31%*	*20%*	*-9%*	*0%*	*166%*	*79%*	*67%*
Commodity Mix:											
% Oil	*44%*	*56%*	*52%*	*47%*	*49%*	*51%*	*43%*	*54%*	*56%*	*61%*	*57%*
% Gas	*56%*	*44%*	*48%*	*53%*	*51%*	*49%*	*57%*	*46%*	*44%*	*39%*	*43%*
Production by Region:											
% Permian	0%	0%	4%	10%	4%	4%	8%	18%	55%	72%	55%
% East Chalkley	37%	24%	19%	29%	27%	24%	18%	23%	14%	15%	16%
% Other	63%	76%	77%	62%	70%	71%	75%	59%	31%	13%	30%
Unit Economics ($AUD /BOE):											
Revenue	$61.55	Not Available				$61.22	Not Available				$59.54
Production expense & taxes	$26.61					$26.62					$15.85
DD&A expense	$80.00					$42.64					$32.85
G&A expense	$71.79					$71.69					$50.71

Notes:
Production is reported on a working interest basis. Net revenue interest varies by project between 69% and 75%.
G&A expense exclude oil and gas impairment and stock-based compensation expenses.

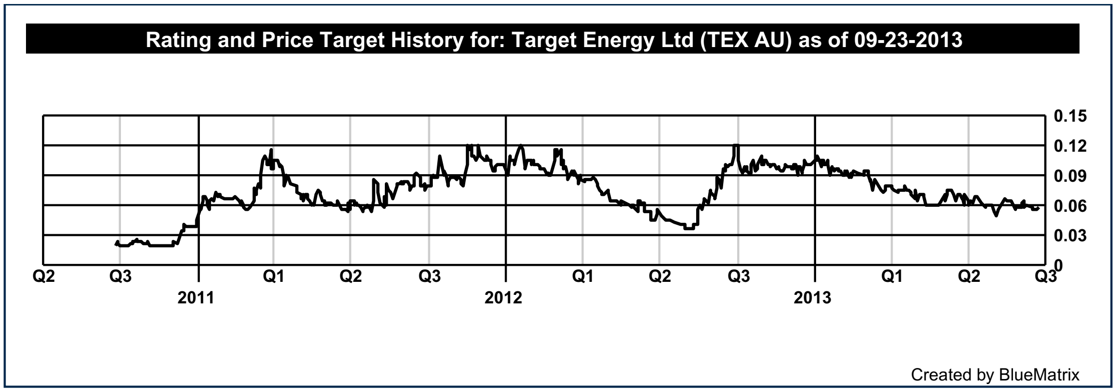
Source: Company Reports; Euro Pacific Capital Estimates.

Figure 5b: Historical Financial and Operational Results

Period Ending	2011A (6/30/11)	1Q12A (9/30/11)	2Q12A (12/31/11)	3Q12A (3/31/12)	4Q12A (6/30/12)	2012A (6/30/12)	1Q13A (9/30/12)	2Q13A (12/31/12)	3Q13A (3/31/13)	4Q13A (6/30/13)	2013A (6/30/13)
INCOME STATEMENT:											
Revenue:											
($AUD 000s unless otherwise specified)											
Revenue	1,153					1,386					2,295
Other income	0					1					0
	1,153					1,387					2,296
Expenses:											
Production expense and taxes	499					603					611
Cash G&A expense	1,345					1,623					1,955
Share-based payments	0					35					12
Depreciation expense	11					35					48
Amortization of oil and gas properties	1,488					930					1,219
Impairment of E&P expenditure	1,255					550					1,105
Interest expense	50					79					138
Other	0					0					0
	4,647					3,855					5,087
Income (loss) before tax	(3,494)					(2,468)					(2,791)
Income tax expense	0		Not Available			0		Not Available			0
Income (loss) after tax	**(3,494)**					**(2,468)**					**(2,791)**
Other comprehensive income:											
Exchange rate translation	(1,667)					336					336
Total comprehensive income (loss)	**(5,161)**					**(2,132)**					**(2,455)**
EPS:											
Common	($0.02)					($0.01)					($0.01)
Diluted	($0.02)					($0.01)					($0.01)
Weighted Average No. of Shares:											
Basic	187,677					312,357					405,352
Diluted	187,677					312,357					405,352
Clean Earnings	**(2,239)**					**(1,883)**					**(1,675)**
Clean EPS	**($0.01)**					**($0.01)**					**$ (0.00)**
Discretionary Cash Flow											
Receipts from customers	1,115					1,377					1,413
Payments to suppliers and employees	(1,836)					(2,066)					(2,737)
Interest received (paid)	(29)					(53)					(122)
Other	0					0					0
Discretionary Cash Flow	**(750)**					**(742)**					**(1,446)**
DCFPS	**($0.00)**					**($0.00)**					**$ (0.00)**
EBITDA (Europac estimate)	**(690)**					**(840)**					**(271)**
Cash Balance	**1,821**					**683**					**1,538**
Capital Spending (approximate)						**4,300**					**6,346**

Source: Company Reports; Euro Pacific Capital Estimates.

Important Research Disclosures



Distribution of Ratings/IB Services
Euro Pacific Capital

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY [BUY]	23	69.70	4	17.39
SPECULATIVE BUY [SB]	2	6.06	1	50.00
HOLD [NEUTRAL]	8	24.24	0	0
SELL [SELL]	0	0.00	0	0
NOT RATED [NR]	0	0.00	0	0

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Buy: Expected to materially outperform sector average over 12 months and indicates total return of at least 10% over the next 12 months.

Neutral: Returns expected to be in line with sector average over 12 months and indicates total return between negative 10% and 10% over the next 12 months.

Sell: Returns expected to be materially below sector average over 12 months and indicates total price decline of at least 10% over the next 12 months.

Speculative Buy: Expected to materially outperform sector average over 12 months and indicates total return of at least 25% if certain factors materialize, with potential for high return volatility and greater than average risk for lower or negative total annual returns over this time period.

Volatility Index

1 (Low): Little to no sharp movement in stock price in a 12 month period
2 (Low to medium): Modest changes in stock price in a 12 month period
3 (Medium): Average fluctuation in stock price in a 12 month period
4 (Medium to High): Higher than average changes in stock price in a 12 month period
5 (High): Extremely sharp movements in stock price in a 12 month period

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