

Target Energy Limited

(ABN 73 119 160 360)

Half Year Report

31 December 2010

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DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year to 31 December 2010. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of directors who held office during or since the end of the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Christopher Rowe	Chairman
Laurence Roe	Managing Director
Graham Riley	Non-Executive Director (Appointed 1 January 2011)
Michael Martin	Non-Executive Director
Paul Lloyd	Non-Executive Director (Resigned 31 December 2010)

Review of Operations

The consolidated entity incurred a net loss after tax of \$1,861,454 during the half-year to 31 December 2010 (2009: \$589,360).

The principal activities of the consolidated entity during the half year were the production of and exploration for oil and gas in the USA.

Events after the Balance Date

On 13 December 2010 Target Energy Limited ("Target" or "the consolidated entity") announced to ASX that the consolidated entity is undertaking a two stage capital raising to raise approximately \$3.6 million. This will occur by a two tranche placement and a fully underwritten rights issue. On 23 December 2010 Target announced the completion of Tranche 1 raising \$505,000 and issuing 16,833,333 shares at \$0.03. The 16,833,333 free attaching options were not issued at the time as Target would exceed the 15% placement capacity.

The issue of the Tranche 2 shares is to be completed following the receipt of Shareholder approval at the General Meeting of Members on 23 March 2011. Tranche 2 will consist of the issue of 74,166,667 shares and 91,000,000 options:

- 30,333,333 exercisable at \$0.05 expiring on 31 March 2012
- 30,333,333 exercisable at \$0.07 expiring on 31 March 2013
- 30,333,333 exercisable at \$0.10 expiring on 31 March 2014

Following the General Meeting of members Target will undertake a rights issue on the basis of one new share for every eight shares held. The new share will be issued at a price of \$0.03 each to raise \$900,000 before costs. Each new share will entitle the holder to an attaching option. The terms of the options are:

- One-third exercisable at \$0.05 expiring on 31 March 2012
- One-third exercisable at \$0.07 expiring on 31 March 2013
- One-third exercisable at \$0.10 expiring on 31 March 2014

On 9 March 2011, Target announced to ASX that it has agreed to take a 60% working interest in the Fairway Project the Permian basin in West Texas. Target will pay acreage cost and participate in 2 wells to earn its interest.

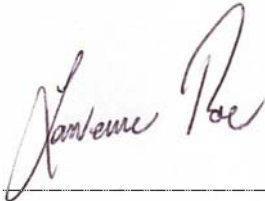
Other than these events there are no matters or circumstances have arisen since balance date which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future periods.

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the company with an Independence Declaration in relation to the review of the half-year financial report.

This Independence Declaration appears after the Independent Auditor's Review Report on page 16 and forms part of this directors' report for the half-year ended 31 December 2010.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s306 (3) of the Corporations Act 2001.



Laurence Roe

Director

Dated this 15th day of March 2011

**CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

	Note	Consolidated	
		31 December	31 December
		2010	2009
		\$	\$
Revenue		619,616	480,295
Other income		-	3,156
Oil and gas production expenses & taxes		(303,279)	(176,990)
Accounting & secretarial expense		(48,204)	(54,473)
Audit fees		(16,000)	(16,205)
Consultants		(27,828)	(124,150)
Directors' Fees		(27,958)	(27,500)
Amortisation - Exploration		(83,933)	(12,401)
Amortisation - Production		(767,698)	(152,406)
Depreciation expense		(2,731)	(3,630)
Employee benefits expense		(229,380)	(241,674)
Foreign exchange loss		(9,357)	(32,461)
Insurance		(14,667)	(13,102)
Legal expenses		(18,507)	(68,915)
ASX fees		(12,893)	(19,330)
Office expense		(43,532)	(42,716)
Impairment of production assets		(738,883)	-
Promotions and advertising		(9,111)	(3,437)
Share registry expense		(8,371)	(18,851)
Travel and accommodation		(70,308)	(24,312)
Other expenses		(48,430)	(40,258)
Loss before income tax expense	2	(1,861,454)	(589,360)
Income tax expense		-	-
Net loss after tax		(1,861,454)	(589,360)
Other comprehensive (loss) / income			
Foreign currency translation difference for foreign operations		(1,275,407)	(654,316)
Total comprehensive loss for the period		(3,136,861)	(1,243,676)
Loss attributable to owners of Target Energy Ltd		(1,861,454)	(589,360)
Total comprehensive loss attributable to owners of Target Energy Ltd		(3,136,861)	(1,243,676)
Basic and diluted loss per share (cents per share)		(1.18)	(0.48)

The accompanying notes form part of these financial statements

CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

		Consolidated	
	Note	31 December	30 June
		2010	2010
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents		1,846,206	1,164,162
Trade and other receivables		181,276	170,170
Other financial assets		50,000	50,000
Total Current Assets		2,077,482	1,384,332
NON-CURRENT ASSETS			
Property, plant & equipment	3	3,606,390	5,630,856
Deferred exploration, evaluation and development expenditure	4	1,492,427	1,790,695
Total Non-Current Assets		5,098,817	7,421,551
TOTAL ASSETS		7,176,299	8,805,883
CURRENT LIABILITIES			
Trade and other payables		471,498	130,198
Total Current Liabilities		471,498	130,198
NON-CURRENT LIABILITIES			
Convertible notes	7	660,977	-
Total Current Liabilities		660,977	-
TOTAL LIABILITIES		1,132,475	130,198
NET ASSETS		6,043,824	8,675,685
EQUITY			
Issued capital	5	18,016,574	17,511,574
Reserves		(873,719)	401,688
Accumulated losses		(11,099,031)	(9,237,577)
TOTAL EQUITY		6,043,824	8,675,685

The accompanying notes form part of these financial statements

**CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

Consolidated	Issued Capital	Accumulated Losses	Option Reserve	Share Based Payments Reserve	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2009	14,865,758	(7,396,770)	340,000	216,315	18,090	8,043,393
Shares issued during the period	2,914,246	-	-	-	-	2,914,246
Transaction costs	(268,430)	-	-	-	-	(268,430)
Loss attributable to members of the parent entity	-	(589,360)	-	-	-	(589,360)
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	(654,316)	(654,316)
Balance at 31 December 2009	17,511,574	(7,986,130)	340,000	216,315	(636,226)	9,445,533
Balance at 1 July 2010	17,511,574	(9,237,577)	340,000	216,315	(154,627)	8,675,685
Shares issued during the period	505,000	-	-	-	-	505,000
Loss attributable to members of the parent entity	-	(1,861,454)	-	-	-	(1,861,454)
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	(1,275,407)	(1,275,407)
Balance at 31 December 2010	18,016,574	(11,099,031)	340,000	216,315	(1,430,034)	6,043,824

The accompanying notes form part of these financial statements

**CONDENSED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

	Consolidated	
	31 December	31 December
	2010	2009
	\$	\$
	Inflows/(Outflows)	
Cash Flows from Operating Activities		
Receipts from customers	534,324	495,991
Payments to suppliers and employees	(245,829)	(839,603)
Interest received	8,034	19,867
Net cash provided by/(used in) operating activities	296,529	(323,745)
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(622,478)	(674,468)
Exploration and development expenditure	(61,716)	(2,310,728)
Net cash used in investing activities	(684,194)	(2,985,196)
Cash Flows from Financing Activities		
Proceeds from issue of shares	505,000	2,914,246
Convertible notes	650,000	(268,430)
Net cash provided by financing activities	1,155,000	2,645,816
Net increase/(decrease) in cash held	767,335	(663,125)
Cash at the beginning of the financial period	1,164,162	2,599,641
Effect of exchange rate changes on the balance of cash held in foreign currencies	(85,292)	(32,461)
Cash at the end of the financial period	1,846,206	1,904,055

The accompanying notes form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The half-year financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134: Interim Financial Reporting, and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This condensed half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the company as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by Target Energy Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half-year report has been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

For the purpose of preparing the half-year report, the half-year has been treated as a discrete reporting period.

Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2010, the Consolidated Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2010.

The Consolidated Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2010.

As a result of these reviews the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to the Consolidated Group accounting policies.

Significant Accounting Judgment and Key Estimates

The preparation of interim financial reports requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2010.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

The following revenue and expense items are relevant in explaining the financial performance for the half-year:

	Consolidated	
	2010	2009
	\$	\$
(a) Revenue		
Oil and Gas income	534,324	461,928
Interest received	85,292	18,367
Other income	-	3,156
	619,616	483,451
(b) Expenses		
Depreciation of non-current assets	2,731	3,630
Amortisation	851,631	164,807
Impairment expense	738,883	-
Contribution to employee superannuation plans	19,987	21,270

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

NOTE 3: PROPERTY PLANT AND EQUIPMENT

	Consolidated			
	Office Equipment \$	Computer Equipment \$	Oil & Gas Properties \$	Total \$
Half year ended 31 December 2010				
At 1 July 2010, net of accumulated depreciation	13,983		5,616,873	5,630,856
Effects of movements in foreign exchange	-	-	(779,281)	(779,281)
Additions	-	4,030	260,097	264,127
Impairment provision	-	-	(738,883)	(738,883)
Depreciation / amortisation for the half-year	(2,669)	(62)	(767,698)	(770,429)
At 31 December 2010, net of accumulated depreciation / amortisation	11,314	3,968	3,591,108	3,606,390
Year ended 30 June 2010				
At 1 July 2009, net of accumulated depreciation	20,687	274	4,347,484	4,368,445
Effect of movement in foreign exchange	-	-	(247,807)	(247,807)
Additions	-	-	1,057,506	1,057,506
Transferred from exploration & evaluation expenditure	-	-	1,683,105	1,683,105
Depreciation / amortisation for the year	(6,704)	(274)	(1,223,415)	(1,230,393)
At 30 June 2010, net of accumulated depreciation / amortisation	13,983	-	5,616,873	5,630,856
At 31 December 2010				
Cost	36,843	52,278	6,656,975	6,746,096
Accumulated depreciation / amortisation	(25,529)	(48,310)	(2,378,458)	(2,452,297)
Impairment	-	-	(687,409)	(687,409)
Net carrying amount	11,314	3,968	3,591,108	3,606,390
At 30 June 2010				
Cost	36,843	48,248	7,501,617	7,586,708
Accumulated depreciation / amortisation	(22,860)	(48,248)	(1,884,744)	(1,955,852)
Net carrying amount	13,983	-	5,616,873	5,630,856

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

NOTE 4: DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

	Consolidated	
	31 December	30 June
	2010	2010
	\$	\$
Costs carried forward in respect of:		
Exploration and evaluation phase - at cost		
Balance 1 July	-	1,072,088
Effects of movements in foreign exchange	-	(61,109)
Expenditure incurred	-	2,475,022
	-	<u>3,486,001</u>
Expenditure written off	-	-
Transferred to other receivable	-	-
Transferred to Oil & Gas Properties	-	(1,683,105)
Transferred to development phase	-	(1,802,896)
Balance 31 December	-	<u>-</u>
Development phase - at cost		
Balance at start of period	1,790,695	-
Effects of movements in foreign exchange	(276,051)	-
Expenditure incurred	61,716	-
	1,576,360	-
Transferred from exploration and evaluation phase	-	1,802,896
Provision for amortisation	(83,933)	(12,201)
Balance at end of period	1,492,427	<u>1,790,695</u>
Total deferred exploration, evaluation and development expenditure	1,492,427	<u>1,790,695</u>

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases are dependent on successful development and commercial exploitation or sale of the respective areas.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

NOTE 5: ISSUED CAPITAL

	Consolidated	
	31 December	30 June
	2010	2010
	\$	\$
174,140,788 (30 June 2010: 157,307,450) fully paid ordinary shares	18,016,574	17,511,574

	Consolidated	
	31-Dec	30-Jun
	2010	2010
	No.	No.
(i) Ordinary shares - number		
At start of period	157,307,450	104,321,170
Share Placement - 16,833,333 on 23 December 2010 at \$0.03	16,833,333	-
Shares issued on option conversion - 5 on 8 October 2010 at \$0.10	5	-
Share placement - 7,400,000 on 21 September 2009 at \$0.055	-	7,400,000
Rights Issue - 44,688,468 on 29 October 2009 at \$0.055	-	44,688,468
Share placement - 897,812 on 6 November 2009 at \$0.055	-	897,812
Balance at end of period	174,140,788	157,307,450

	Consolidated	
	31-Dec	30-Jun
	2010	2010
	\$	\$
(ii) Ordinary shares – value		
At start of period	17,511,574	14,865,758
Share Placement - 16,833,333 on 23 December 2010 at \$0.03	505,000	-
Shares issued on option conversion - 5 on 8 October 2010 at \$0.10	-	-
Share placement - 7,400,000 on 21 September 2009 at \$0.055	-	407,000
Rights Issue - 44,688,468 on 29 October 2009 at \$0.055	-	2,457,866
Share placement - 897,812 on 6 November 2009 at \$0.055	-	49,380
Less share issue costs	-	(268,430)
Balance at end of period	18,016,574	17,511,574

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

NOTE 6: SEGMENT REPORTING

Segment Information

The Board has determined, based on reports used to make strategic decisions, that the Consolidated Entity only has one reportable segment being the oil and gas exploration and production industry in the United States of America.

NOTE 7: CONVERTIBLE NOTES

The terms of the convertible notes are as follows:

Term:	2 Years.
Coupon Rate	12% p.a.
Interest Paid	Quarterly in Arrears.
Note Face Value	A\$1.00
Conversion Ratio	Each Note converts to 20 fully paid ordinary Shares in the Company at the Note holders' election.
Conversion Price	A\$0.05 per share.

NOTE 8: EVENTS AFTER THE BALANCE DATE

On 13 December 2010 Target Energy Limited ("Target" or "the consolidated entity") announced to ASX that the consolidated entity is undertaking a two stage capital raising to raise approximately \$3.6 million. This will occur by a two tranche placement and a fully underwritten rights issue. On 23 December 2010 Target announced the completion of Tranche 1 raising \$505,000 and issuing 16,833,333 shares at \$0.03. The 16,833,333 free attaching options were not issued at the time as Target would exceed the 15% placement capacity.

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On 9 March 2011, Target announced to ASX that it has agreed to take a 60% working interest in the Fairway Project the Permian basin in West Texas. Target will pay acreage cost and participate in 2 wells to earn its interest.

Other than these events there are no matters or circumstances have arisen since the balance date which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in future periods.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes thereto, as set out on pages 3 to 12:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - b. give a true and fair view of the Consolidated Entity's financial position as at 31 December 2010 and of its performance for the period then ended.
2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s303 (5) of the Corporations Act 2001.



Laurence Roe

Director

Dated this 15th day of March 2011

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Target Energy Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Target Energy Limited ("the Company") which comprises the condensed statement of financial position as at 31 December 2010, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Target Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Target Energy Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

L Di Giallonardo

Perth, Western Australia
15 March 2011

L DI GIALLONARDO
Partner

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Target Energy Limited for the half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.



Perth, Western Australia
15 March 2011

L DI GIALLONARDO
Partner, HLB Mann Judd