

Quarterly Report for the quarter ending 31 December 2010

- Target to earn up to 50% interest in South Texas 'Buffalo' project.
- Appointment of new directors
- \$3.6m Capital Raising underway

1. Production (1 October – 31 December 2010)

Well	TEX WI	Gross Ave Daily Gas Prodn in Period (mcfgd)	Gross Gas Prodn in Period (mmcf)	Gross Gas Prodn to date (mmcf)	Gross Ave Daily Oil Prodn in Period (BOPD)	Total Oil Prodn in Period (BO)	Total Oil to date (BO)
Snapper A-1	25%	314	28.9	975.8	1.1	105	3,458
Snapper A-2	25%	84	7.7	471.7	20.9	1,927	31,526
Snapper A-3	25%	309	28.4	301.8	0.7	67	1,814
Beyt #1^	15%	-	-	40.8	-	-	1,534
Pine Pasture #1	35%	-	-	-	14.8	1,363	6,022
Pine Pasture #2	35%	36	3.3	41.4	69.0	6,333	61,608
Merta #1	25%	376	33.8	83.0	5.8	530	1,179
Total (Gross)			102.1	1914.6		10,325	107,140
Total (Net TEX WI)			25.9	478.7		3,351	33,395

^ Well shut-in.

mmcf = million cubic feet of gas, mmcfgd = million cubic feet of gas per day; mcfgd = thousand cubic feet of gas per day; BO = barrels of oil, BOPD = barrels of oil per day, BOEPD = barrels of oil equivalent per day (Target reports a thermal equivalent when combining gas and oil production, where 1BOE = 6 mcf)

NB: Production problems at Snapper wells rectified in November.



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2. Exploration

Texas

2.1. Buffalo Project

On 13 December 2010, Target advised that it had entered into an agreement to earn up to a 50% working interest and operatorship of properties covering approximately 13,000 acres (the “Buffalo” Project) in South Texas, USA.

Under the terms of the agreement Target will fully fund the fracture stimulation (“frac”) of an existing well at the Buffalo Project to earn a 100% working interest in the relevant zone in the borehole until pay-out with Target’s working interest to revert to 50% after pay-out.

Target will also earn an option to frac a second well under similar terms, which in turn will earn it an option to drill and complete a new horizontal well in the project area on the same terms.

Following the drilling of the new well, should Target then elect to undertake more work in the project area, it will be assigned a 50% working interest in the entire leasehold. The Company will also retain options to frac any other wells in the project area currently owned by the existing partners. The partners in the project are private US companies.

Target will operate the frac and drilling programs and will be assigned operatorship of the entire project at such time as it is assigned the 50% working interest in the entire leasehold.

The initial well to be fraced has been selected and frac design completed. A number of suitable frac crews have been identified, with the timing of the frac subject to their availability.

Louisiana – St Martin Parish

2.2. Beyt #1 Sidetrack (Target Energy 15% working interest)

Drilling at the Beyt #1 well at the Bayou Berard prospect in 2008 encountered a major fault prior to intersecting the primary Marg Tex targets. The well was subsequently completed for production in the shallower Marg Vag sand and is presently shut-in.

There is an opportunity to drill out from the existing wellbore to intersect the Marg Tex sands. The 1st, 2nd and 3rd Marg Tex sands have an aggregate potential of over 750,000 barrels of oil.

Target has been advised by the operator that it is not in favour of proceeding with the program, primarily due to increased anticipated costs. Target is presently reviewing its options.

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3. Development

Texas – Wharton County

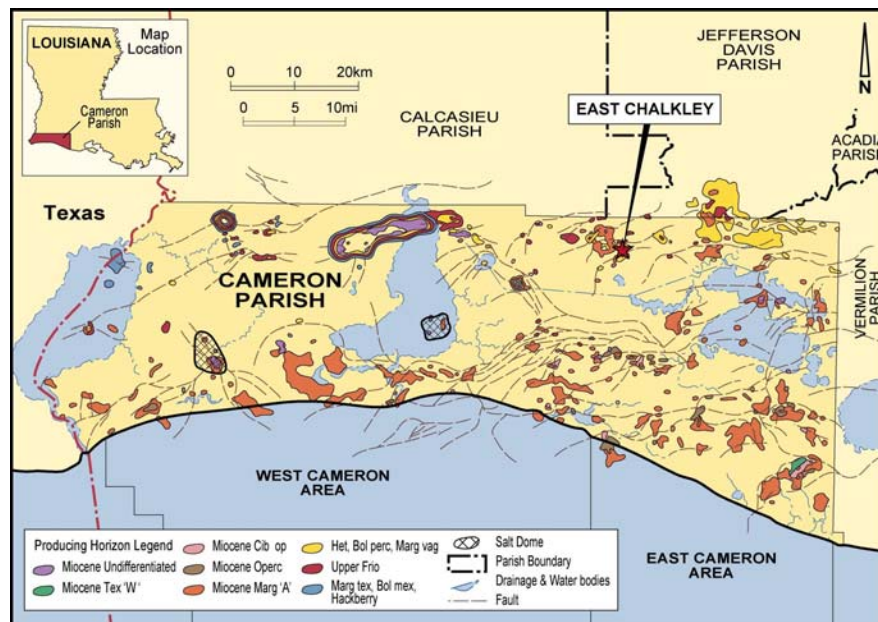
3.1. Highway 71 (Target Energy 25% WI)

Following a fracture stimulation on 19 October, 2010, production from the Cook Mountain sands has stabilised to average approximately 420 mcfgd with 6 BOPD. Consideration is now being given to putting the well on compression.

Louisiana - Cameron Parish

3.2. East Chalkley (Target Energy 35% working interest)

The East Chalkley project is an oil field appraisal and development program, approx. 33 kilometres southeast of the town of Lake Charles in Cameron Parish, Louisiana.



The oil accumulation, on the east flank of the Chalkley Field, is a previously unidentified down-dip oil leg associated with the gas field. Target participated in the successful drilling of the Pine Pasture #2 well in 2008.

The drilling of the next well, Pine Pasture #3, was approved by the partners in August 2010, with all permitting and site-preparation subsequently completed. The drilling program was deferred by the operator in November 2010 following its decision to divest its interests in the field.

Target is reviewing whether it wishes to increase its interest in the field and to otherwise pursue options to accelerate activity in the field.

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4. Corporate

4.1. Capital Raising

On 13 December 2010, Target announced a two-stage capital raising to raise approximately \$3.6 million via a two-tranche placement and a fully underwritten rights issue. Target is being assisted by Investmet Limited (“Investmet”) in the process. Investmet is also acting as underwriter for the proposed rights issue.

Funds received from the raising will be used principally to continue the Company’s exploration and development programs and to pursue potential acquisitions. The remainder will be utilised as working capital.

Stage 1 involves a two-tranche placement to raise \$2.73 million via the issue of 91,000,000 fully paid ordinary shares at an issue price of \$0.03 per share and 91,000,000 attaching options. The placement is being made to sophisticated investors and the funds raised will be pursuant to the “excluded offer” provisions (Section 708) of the Corporations Act, 2001.

Stage 2 will be via a fully underwritten 1:8 pro rata non-renounceable rights issue to shareholders. This offer will raise approximately \$930,000.

4.1.1. Raising Details

The first tranche placement has raised approximately \$705,000 via the issue of 23.5 million shares at a price of 3.0 cents per share and 23.5 million free attaching options. 7.83 million options will be exercisable at 5.0 cents until 31st March 2012, 7.83 million will be exercisable at 7.0 cents until 31st March 2013 and the balance of the options will be exercisable at 10.0 cents until 31st March 2014. The issue of 6,666,666 shares and all of the options will be subject to shareholder approval.

The second tranche placement will raise approximately \$2,025,000 via the issue of 67.5 million shares at a price of 3.0 cents per share and 67.5 million free attaching options. 22.5 million options will be exercisable at 5.0 cents until 31st March 2012, 22.5 million will be exercisable at 7.0 cents until 31st March 2013 and the balance of the options will be exercisable at 10.0 cents until 31st March 2014. The issue of the shares and options will be subject to shareholder approval.

The Rights Issue will raise approximately \$930,000 and will be offered on the basis of one new share at an application price of 3.0 cents per share and one free attaching option for every eight shares held. One-third of the options will be exercisable at 5.0 cents until 31st March 2012; one-third will be exercisable at 7.0 cents until 31st March 2013 and the balance of the options will be exercisable at 10.0 cents until 31st March 2014. The Rights Issue will be fully underwritten by Investmet Limited.

The Company will apply for quotation of the new shares on the ASX and a General Meeting will be held to seek relevant shareholder approvals. Details of the timetable will be announced as soon as they become available.

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4.2. Board of Directors

31 December 2010: Mr Paul Lloyd resigned from the board of Target Energy

1 January 2011: Mr Graham Riley appointed to the board of Target Energy

Professor Ralph Kehle appointed to the board of TELA (USA) Inc, Target Energy's wholly owned US subsidiary

Mr Mike Martin appointed to the board of TELA (USA) Inc.

Further to the above and subject to the shareholder confirmation of the planned placement, the Company will then appoint Mr. Stephen Mann as a non-executive director of Target Energy Limited. Mr Martin will step down from the Target Energy board at that time.

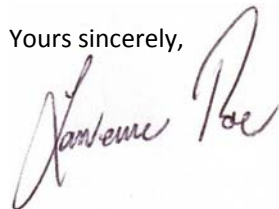
5. Current Indicative Drilling Schedule

Estimated Timing	Prospect	Location	Target Working Interest	Potential Recoverable Volumes
Q1 2011	Buffalo Frac (#1)	South Texas	100% BPO / 50% APO	
Q2 2011	Buffalo Frac (#2)	South Texas	100% BPO / 50% APO	
Q2 2011	East Chalkley PP#3	Cameron Parish, La	35%	250 – 450 mmBO
Q3 2011	East Chalkley PP#4	Cameron Parish, La	35%	250 – 450 mmBO

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

For further information, please contact Laurence Roe on 08 9476 9000 or contact the company at admin@targetenergy.com.au.

Yours sincerely,



Laurence Roe
Managing Director

NOTE: In accordance with ASX Listing Rules, any hydrocarbon reserves and/or drilling update information in this report has been reviewed and signed off by Mr Laurence Roe, B Sc, Managing Director of Target Energy Limited, who is a member of the Society of Exploration Geophysicists and has 30 years experience in the sector. He consents to the reporting of that information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Target Energy Limited

ABN

73 119 160 360

Quarter ended ("current quarter")

31 December 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	223	507
1.2 Payments for		
(a) exploration and evaluation	-	-
(b) development	(337)	(341)
(c) production	(36)	(144)
(d) administration	(348)	(609)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	4	8
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)		
Net Operating Cash Flows	(494)	(579)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	-	-
1.13 Total operating and investing cash flows (carried forward)	(494)	(579)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(494)	(579)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	505	505
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	900	900
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other	-	-
	Net financing cash flows	1,405	1,405
	Net increase (decrease) in cash held	911	826
1.20	Cash at beginning of quarter/year to date	1,026	1,215
1.21	Exchange rate adjustments to item 1.20	(41)	(145)
1.22	Cash at end of quarter	1,896	1,896

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

	Current quarter \$A'000
1.2 Aggregate amount of payments to the parties included in item 1.2	110
1.2 Aggregate amount of loans to the parties included in item 1.10	-

1.2 Explanation necessary for an understanding of the transactions

Directors' fees, salaries and superannuation.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Not Applicable

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Not Applicable

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	650	650
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	300
4.2 Development	-
4.3 Production	150
4.4 Administration	300
Total	750

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,846	976
5.2 Deposits at call	50	50
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1,896	1,026

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	Not Applicable		
6.2	Interests in mining tenements acquired or increased	Not Applicable		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3)	Amount paid up per security (see note 3)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	174,140,788	174,140,788		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	16,833,333	16,833,333		
7.5 +Convertible debt securities <i>(description)</i>	550,000 (5c, 9.11.12) 100,000 (5c, 19.11.12)	- -	\$1.00 \$1.00	\$1.00 \$1.00
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	550,000 (5c, 9.11.12) 100,000 (5c, 19.11.12)	- -	\$1.00 \$1.00	\$1.00 \$1.00
7.7 Options <i>(description and Conversion factor)</i>	<i>Incentive Options</i> 6,000,000 1:1 750,000 1:1 52,986,275 1:1	Nil Nil 52,986,275	<i>Exercise price</i> 20 cents 12 cents 10 cents	<i>Expiry date</i> 30/06/2011 7/8/2011 31/10/2012
7.8 Issued during quarter				
7.9 Exercised during quarter	5 1:1	5	10 cents	31/10/12
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:
(Company Secretary)

Date: 28 January 2011

Print name: Rowan Caren

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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