

**Notice of General Meeting  
and Explanatory Statement**

General Meeting to be held at the Celtic Club at 48 Ord Street, West  
Perth, Western Australia  
on 23 March 2011 at 11 am (WST)

This Notice of General Meeting and Explanatory Statement should be read in its entirety. Shareholders in doubt as to how they should vote should seek advice from their professional advisers.

An independent expert's report is attached to this Notice, in Appendix B, as required by ASIC Regulatory Guide 74. The report concludes that the transaction the subject of Resolutions 9 and 10 in this Notice of Meeting is "not fair but reasonable".

## Corporate Directory

**Directors**  
Christopher Rowe (Non-Executive Chairman))  
Laurence Roe (Managing Director)  
Mike Martin (Non-Executive Director)  
Graham Riley (Non-Executive Director)

**Company Secretary** Rowan Caren

**Principal & Registered Office** Level 2, 46 Ord Street  
West Perth WA 6005

Telephone: (08) 9476 9000  
Email: [admin@targetenergy.com.au](mailto:admin@targetenergy.com.au)

**Share Registry** Advanced Share Registry Services  
150 Stirling Highway  
Nedlands WA 6009

Telephone: (08) 9389 8033

**Auditor** HLB Mann Judd  
Level 4,130 Stirling Street  
Perth WA 6000

**ASX Codes** TEX  
TEXOB

**Website** [www.targetenergy.com.au](http://www.targetenergy.com.au)

For personal use only

## Notice of General Meeting

A General Meeting of Target Energy Limited will be held at the Celtic Club, 48 Ord Street, West Perth, Western Australia on 23 March 2011 at 11am (WST). The Explanatory Statement which forms part of this Notice of General Meeting describes the various matters to be considered. Shareholders are asked to refer to the Glossary at the end of the Explanatory Statement which contains definitions of the terminology used in this Notice of General Meeting and the Explanatory Statement.

**To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:**

### Ordinary Business:

#### **Resolution 1: Election of Graham Riley as a Director**

“That for all purposes, Graham Riley, who was appointed to the Board since the last annual general meeting of the Company is re-elected as a Director.”

#### **Resolution 2: Election of Stephen Mann as a Director**

“That for all purposes Stephen Mann be elected as a Director.”

### Special Business:

#### **Resolution 3: Ratify issue of Shares**

“That, for the purposes of Listing Rule 7.4 and for all other purposes, the Shareholders ratify and approve the issue of 16,833,333 Shares to the investors, for the purpose and on the terms set out in the Explanatory Statement.”

#### **Resolution 4: Approval for the Issue of Shares and Options**

“That the Shareholders approve the issue of 6,916,668 Shares and 23,750,001 Options in accordance with Listing Rule 7.1 and for all other purposes, to the investors, for the purpose and on the terms set out in the Explanatory Statement.”

#### **Resolution 5: Approval for the Issue of Shares and Options to nominees of Graham Riley**

“That the Shareholders approve the issue of 6,666,666 Shares and 6,666,666 Options in accordance with Listing Rule 10.11 and for all other purposes, to Related Parties who are nominees of Graham Riley, for the purpose and on the terms set out in the Explanatory Statement.”

#### **Resolution 6: Approval for the Issue of Shares and Options to a nominee of Chris Rowe**

“That the Shareholders approve the issue of 6,666,666 Shares and 6,666,666 Options in accordance with Listing Rule 10.11 and for all other purposes, to a Related Party who is a nominee of Chris Rowe, for the purpose and on the terms set out in the Explanatory Statement.”

#### **Resolution 7: Approval for the Issue of Shares and Options to a nominee of Laurence Roe**

“That the Shareholders approve the issue of 666,666 Shares and 666,666 Options in accordance with Listing Rule 10.11 and for all other purposes, to a Related Party who is a nominee of Laurence Roe, for the purpose and on the terms set out in the Explanatory Statement.”

**Resolution 8: Approval for the Issue of Shares and Options to a nominee of Stephen Mann**

“That the Shareholders approve the issue of 1,500,000 Shares and 1,500,000 Options in accordance with Listing Rule 10.11 and for all other purposes, to a Related Party who is a nominee of Stephen Mann, for the purpose and on the terms set out in the Explanatory Statement.”

**Resolution 9: Approval for the Issue of Shares and Options to Investmet Limited**

“That the Shareholders approve the issue of 45,000,000 Shares and 45,000,000 Options, and the exercise of 45,000,000 Options, to Investmet Limited in accordance with Listing Rule 7.1, section 611 Corporations Act and for all other purposes, for the purpose and on the terms set out in the Explanatory Statement.”

**Resolution 10: Approval for the Issue of Shares and Options to Delta Resource Management Limited and Associates**

“That the Shareholders approve the issue of 6,750,000 Shares and 6,750,000 Options, and the exercise of 6,750,000 Options, to Delta Resource Management Limited and Associates in accordance with Listing Rule 7.1 and section 611 Corporations Act and for all other purposes, for the purpose and on the terms set out in the Explanatory Statement.”

**Resolution 11: Approval for the Issue of Shortfall Shares and Shortfall Options to Related Parties**

“That the Shareholders approve the issue of up to 3,000,000 Shares and up to 3,000,000 Options in accordance with Listing Rule 10.11 and for all other purposes, to the Related Parties, for the purpose and on the terms set out in the Explanatory Statement.”

**Voting exclusions:**

For the purposes of resolution 3, under ASX Listing Rule 7.5.6, the Company will disregard any votes cast on this resolution by any person who participated in the issue and any of their Associates;

For the purposes of resolution 4 under Listing Rule 7.3 the Company will disregard any votes cast by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, and any of their Associates;

For the purposes of resolutions 5, 6, 7, 8, 9 and 11, under Listing Rule 10.13 the Company will disregard any votes cast on resolutions 5, 6, 7, 8, 9 and 11 by any person who may participate in the proposed issue, and by any person proposing to make the acquisition and any person from whom the acquisition is to be made, and any of their Associates;

For the purposes of resolutions 9 and 10, under Listing Rule 7.3 and Item 7 of Section 611 of the Corporations Act, the Company will disregard any votes cast on resolutions 9 and 10 by any person who may participate in the proposed issue, and by any person proposing to acquire Voting Power in the Company in excess of 20% by way of the proposed subscription and any of their Associates;

however, votes cast by a person as proxy for a person who is entitled to vote (in accordance with the directions on the proxy form) or the person chairing the meeting as proxy for a person who is entitled to vote (in accordance with a direction on the proxy form to vote as the proxy decides) will be taken into account.

**Proxies:**

Please note that:

- (a) a member of the Company entitled to attend and vote at the General Meeting is entitled to appoint a proxy;
- (b) a proxy need not be a member of the Company; and
- (c) a member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

The enclosed proxy form provides further details on appointing proxies and lodging proxy forms.

**Snap-shot time:**

The Company may specify a time, not more than 48 hours before the meeting, at which a “snapshot” of shareholders will be taken for the purposes of determining shareholder entitlements to vote at the meeting. The Directors have determined that all shares of the Company that are quoted on ASX at 5pm WST on 21 March 2011 shall be taken to be held by the persons registered as holding the shares at that time, for the purposes of determining voting entitlements at the General Meeting.

**Corporate Representative**

Any corporate Shareholder who has appointed a person to act as its corporate representative at the meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company’s representative. The authority may be sent to the Company and/or registry in advance of the meeting or handed in at the meeting when registering as a corporate representative. An appointment of Corporate Representative form is enclosed if required.

**Signed in accordance with a resolution of the Directors dated 18 February 2011**



**Rowan Caren**

Company Secretary

Dated 18 February 2011

## Explanatory Statement

---

The purpose of this Explanatory Statement is to provide Shareholders with all information known to the Company which is material to a decision on how to vote on the Resolutions. This Explanatory Statement should be read in conjunction with the Notice of General Meeting. Shareholders are asked to refer to the Glossary at the end of the Explanatory Statement which contains definitions of the terminology used.

### Overview of Resolutions

On 13 December 2010 the Company announced a \$3.6 million capital raising and the appointment of new directors to the Board. Resolutions 3 to 10 are the means by which part of the capital raising is to be implemented. In addition to the issue of Securities the subject of Resolutions 3 to 10 inclusive, the Company has announced that a non renounceable rights issue will be conducted during March and April after the allotment of the Securities following the General Meeting, if all necessary Shareholder approvals are forthcoming. Resolution 11 is relevant to the Rights Issue and Related Parties taking up any Shortfall before the Underwriter does so.

On 23 December 2010, the Company allotted and issued 16,833,333 Shares at an issue price of 3 cents each to investors who are excluded offerees under section 708 of the Corporations Act, not requiring the issue of a prospectus. Resolution 3 seeks ratification of this issue in order to refresh the Company's capacity to issue securities under Listing Rule 7 and maximise the Company's flexibility going forward.

Resolutions 4 to 10 inclusive seek Shareholder approval for the issue of the balance of the securities referred to in the ASX announcement, namely the issue of 74,166,666 Shares and 90,999,999 Options at exercise prices of 5 cents, 7 cents and 10 cents respectively, with expiry dates of 31 March 2012, 2013 and 2014 respectively. They are dealt with in separate resolutions as explained below, according to whether the investors are Related Parties or not, and whether the investors will breach the 20% takeovers prohibition under section 606 of the Corporations Act if Shareholder approval were not obtained at the General Meeting.

The independent expert's report annexed to this Notice of Meeting concerns the issue of the Securities under Resolutions 9 and 10. ASIC requires Shareholders to be fully informed including the information set out in the independent expert's report, before voting in relation to Resolutions 9 and 10. Shareholders are encouraged to read the report in its entirety. The report concludes that the proposed acquisition of Shares and Options by the parties named in Resolutions 9 and 10 is not fair but reasonable.

Resolution 11 has been included to allow Related Parties who are Shareholders to subscribe for any Shortfall ahead of the Underwriter to the Rights Issue, which all Shareholders entitled to participate in the Rights Issue will be able to do under the terms of the Rights Issue, should they wish to do so in the event there is sufficient Shortfall resulting after the Rights Issue closes. It is not necessary for Related Parties who are Shareholders to seek Shareholder approval to take up their Entitlement under the Rights Issue or participate in the underwriting or sub-underwriting of the Rights Issue, provided that the terms of the Underwriting Agreement have been included in the Company's prospectus for the Rights Issue.

## Capital Structure as at the date of this Notice of General Meeting

174,140,788 Shares

59,736,275 Options comprising: 52,986,275 (10 cents, 31 October 2012)

6,000,000 (20 cents, 30 June 2011)

750,000 (12 cents, 7 August 2011)

550,000 \$1 Convertible Notes each convertible into 20 Shares at a conversion price of 5 cents each on or before 24 months from date of issue on 9 November 2010.

100,000 \$1 Convertible Notes each convertible into 20 Shares at a conversion price of 5 cents each on or before 24 months from date of issue on 19 November 2010.

## Capital Structure following issue of Securities in this Notice of Meeting\*

### Shares

Currently on issue	174,140,788
To be issued under Resolutions 4-10 inclusive	74,166,666
Total on issue following General Meeting	248,307,454
To be offered by Rights Issue	31,038,432
Total on issue after Rights Issue	279,345,886

### Options

Currently on issue	52,986,275	(10 cents, 31 October 2012)
	6,000,000	(20 cents, 30 June 2011)
	750,000	(12 cents, 7 August 2011)
To be issued under Resolutions 4-10 inclusive	30,333,333	(5 cents, 31 March 2012)
	30,333,333	(7 cents, 31 March 2013)
	30,333,333	(10 cents, 31 March 2014)
Total on issue following General Meeting	150,736,274	(various exercise prices & expiry dates)
To be offered by Rights Issue	31,038,432	(various exercise prices & expiry dates)
Total on issue after Rights Issue	181,774,706	(various exercise prices & expiry dates)

### Convertible Notes

550,000 \$1 convertible notes each convertible into 20 Shares at a conversion price of 5 cents each on or before 24 months from date of issue on 9 November 2010.

100,000 \$1 Convertible Notes each convertible into 20 Shares at a conversion price of 5 cents each on or before 24 months from date of issue on 19 November 2010.

*\*This assumes that no Options currently on issue are exercised between the date of this Notice of Meeting and the date of the General Meeting, that the Convertible Notes are not converted during that period, and assumes that the Rights Issue is fully underwritten and the Underwriting Agreement is performed in accordance with its terms and not terminated by either party.*

## Use of Funds Raised

The total funds raised by the issue of Shares the subject of Resolution 3 and under Resolutions 4-10 inclusive will be \$2,730,000 which will be applied to continue the Company's exploration and development programs, to pursue potential acquisitions, and for working capital purposes. If the Options the subject of Resolution 3 and under Resolutions 4-10 inclusive are exercised, additional funds of up to \$6,673,333 will be raised, which will be applied in the same manner. The total funds raised by the Rights Issue will be \$930,000; the Rights Issue prospectus will detail the use of the funds raised.

## Composition of the Board of Directors

Since the capital raising was announced, the Board of Directors have appointed Graham Riley as a Director, and Resolution 1 has been included to seek his re-election now, rather than address this at the next annual general meeting of the Company. Paul Lloyd, a non executive Director, has resigned with effect on 31 December 2010, and non executive Director Michael Martin intends to resign with effect from the close of the General Meeting. If the Shareholders approve the election of Stephen Mann the subject of Resolution 2, the Board will comprise four Directors, namely Chris Rowe, Laurence Roe, Graham Riley and Stephen Mann.

There now follows a detailed explanation of each of the Resolutions including all information required to be disclosed under the Corporations Act, the Listing Rules and relevant ASIC policy.

### **Resolution 1: Election of Graham Riley as a Director**

Shareholders are being asked to approve the appointment of Graham Riley as a Director of the Company.

Mr. Graham Riley is a highly regarded oil and gas professional and has joined the Target Energy board in a non-executive role.

A founding Director of ARC Energy and former non-executive director of Adelphi Energy, Mr Riley is a qualified legal practitioner (B Jur, LLB). Graham has been responsible for the foundation and growth of a number of petroleum and mining companies and is currently Chairman of Buru Energy, an ASX-listed oil and gas exploration company, Giralia Resources, a diversified mining and exploration company which has been responsible for the spin-off of five independently listed commodity-specific explorers from the extensive project book it had built over recent years, Entek Energy and Gascoyne Resources.

Graham, who also holds private petroleum interests in the US, brings a wealth of experience to the Target board through his involvement with a number of other oil and gas companies and other resource industry directorships and has a proven record of assisting to generate value for shareholders.

### **Resolution 2: Election of Stephen Mann as a Director**

Shareholders are being asked to approve the appointment of Stephen Mann as a Director of the Company. Stephen is a shareholder in and a director of Investmet Limited, one of the proposed allottees of securities the subject of Resolution 9. Stephen is a Fellow of the Institute of Chartered Accountants of Australia and has more than 30 years experience as a chartered accountant prior to his retirement from private practice in 2003. Since 2003 Stephen has acted as the chief financial officer and more recently as a consultant to the Nacap Asia Pacific Group which is a large Dutch group specialising in the oil and gas pipeline construction. Stephen is a non executive Director of

ASX listed company Pegasus Metals Limited and a non-executive Director of Altus Renewables Ltd, an unlisted public company.

**Resolution 3: Ratify the Issue of Shares**

Shareholders are being asked to approve Resolution 3 in connection with a placement of 16,833,333 Shares which occurred on 23 December 2010 to the following allottees, none of whom are Related Parties of the Company, at an issue price of 3 cents each. The Shares were issued on the same terms as existing Shares on issue, the terms of which are already in the public domain.

Name of Investor	Number of Shares allotted
Rowan Caren	666,666
John Greenhalgh & Chase De Vere	1,666,667
Sechs Limited Partnership	1,666,667
Paranoid Enterprises Pty Ltd	1,666,666
David Ower	500,000
Thomas Patterson	1,666,667
Adiolus SD E RL LLC	1,666,667
John and Dale Lorraine Jansen	500,000
Gary Dempsey	333,333
Sharic Superannuation Pty Ltd	1,400,000
Oakmount Nominees Pty Ltd	900,000
Lantech Developments Pty Ltd	400,000
DSBC Pty Ltd	400,000
Perth Select Seafoods Pty Ltd	650,000
FL & DP Waddell	550,000
James Colby and Paula Charmaine Colby	1,100,000
Wayne McGrath	500,000
Greg Sharpless	600,000
<b>Total</b>	<b>16,833,333</b>

The funds raised (approximately \$505,000) will be applied by the Company to continue the Company's exploration and development programs, to pursue potential acquisitions, and for working capital purposes.

Listing Rules 7.1 and 7.4 provide generally that a company may not issue securities equal to more than 15% of the Company's issued share capital in any 12 months without obtaining shareholder approval. Listing Rule 7.4 states that an issue of securities by the Company without prior approval under Listing Rule 7.1 is treated as having been made with approval for the purpose of Listing Rule 7.1 only if the issue did not breach Listing Rule 7.1 at the time the issue occurred, and shareholder approval is subsequently obtained.

Shareholder approval will enable the Company to disregard the issue of the Shares to the investors named in the table above, for the purposes of calculating the Company's 15% existing capacity under Listing Rule 7.1 in the next 12 months.

The Directors recommend that the Shareholders vote in favour of Resolution 3 in order to provide maximum flexibility to the Company for future capital raising in the following 12 month period.

For personal use only

#### Resolution 4: Issue of Shares and Options

Shareholders are being asked to approve Resolution 4 for the purposes of Listing Rule 7.1. Listing Rule 7.1 provides generally that a company may not issue securities equal to more than 15% of the Company's issued share capital in any 12 months without obtaining shareholder approval.

6,916,668 Shares are to be issued at an issue price of \$0.03 cents per Share, within three months of the date of the Meeting, to the investors named below, none of whom are Related Parties of the Company. The Shares will rank equally in all respects with all of the existing ordinary Shares on issue the terms of which are in the public domain. The funds raised (approximately \$207,500) will be applied by the Company to continue the Company's exploration and development programs, to pursue potential acquisitions, and for working capital purposes.

23,750,001 Options will be issued to the investors named below, within three months of the date of the Meeting, on the terms set out in Annexure A. No funds will be raised upon the grant of the Options. If and when the Options are exercised, the funds raised by payment of the exercise price will be applied by the Company to continue the Company's exploration and development programs, to pursue potential acquisitions, and for working capital purposes.

Name of Investor	Number of Shares proposed to be issued	Number of Options to be granted, exercisable at 5 cents each by 31 March 2012	Number of Options to be granted, exercisable at 7 cents each by 31 March 2013	Number of Options to be granted, exercisable at 10 cents each by 31 March 2014
John and Dale Lorraine Jansen	nil	166,666	166,667	1,666,667
Gary Dempsey	nil	111,111	111,111	111,111
Sharic Superannuation Pty Ltd	nil	466,666	466,667	466,667
Oakmount Nominees Pty Ltd	nil	300,000	300,000	300,000
Lantech Developments Pty Ltd	nil	133,333	133,333	133,334
DSBC Pty Ltd	nil	133,333	133,333	133,334
Perth Select Seafoods Pty Ltd	nil	216,666	216,667	216,667
FP & DP Waddell	nil	183,333	183,333	183,334
James Colby and Paula Charmaine Colby	nil	366,666	366,667	366,667
Wayne McGrath	nil	166,666	166,667	166,667
Greg Sharpless	nil	200,000	200,000	200,000
Rowan Caren	nil	222,222	222,222	222,222
John Greenhalgh & Chase De Vere	nil	555,555	555,556	555,556
Sechs Limited Partnership	nil	555,555	555,556	555,556

Paranoid Enterprises Pty Ltd	nil	555,555	555,555	555,556
David Ower	nil	166,666	166,667	166,667
Thomas Patterson	nil	555,555	555,556	555,556
Adiolus SD E RL LLC	nil	555,555	555,556	555,556
PC Hammond and BJ Moore	2,960,001	986,667	986,667	986,667
Tania Loosley-Smith	300,000	100,000	100,000	100,000
Cascade Holdings Pty Ltd	250,002	83,334	83,334	83,334
Andrew Spencer	465,000	155,000	155,000	155,000
Steven McAlpine	525,000	175,000	175,000	175,000
Blue Range Nominees Pty Ltd	116,667	38,889	38,889	38,889
Eric Peter Murphy and Kim Lea Murphy	249,999	83,333	83,333	83,333
Farris Corporation Pty Ltd	900,000	300,000	300,000	300,000
Jemaya Pty Ltd	1,149,999	383,333	383,333	383,333
<b>Total</b>	<b>6,916,668</b>	<b>7,916,659</b>	<b>7,916,669</b>	<b>7,916,673</b>

#### **Resolutions 5, 6, 7 and 8: Issue of Shares and Options to Related Parties**

Shareholders are being asked to approve Resolutions 5-8 inclusive for the purposes of Listing Rule 10.11. Listing Rule 7.1 provide generally that a company may not issue securities equal to more than 15% of the Company's issued share capital in any 12 months without obtaining shareholder approval. Resolutions 5-8 inclusive are necessary in accordance with this principle, although where related parties of the Company (or associates of related parties of the Company) are the recipients of the securities, shareholder approval is sought instead in accordance with Listing Rule 10.11. Where shareholder approval is obtained under Listing Rule 10.11, it is not also required under Listing Rule 7.1.

Listing Rule 10.11 provides that a company must not issue equity securities to a related party of the Company, such as a director or an entity controlled by a director or a person who has reasonable grounds to believe that he will become a related party at any time in the future, without the company obtaining shareholder approval by ordinary resolution. Section 228 of the Corporations Act defines what a related party is for the purposes of this rule. It includes a Director; a person reasonably believed to become a Director at any time in the future, a company controlled by a Director, and certain family members of each Director.

As a proposed new director of the Company, Stephen Mann is a Related Party to whom Listing Rule 10.11 applies. Graham Riley, Chris Rowe and Laurence Roe are existing Directors and their controlled entities and certain family members are therefore related parties as well.

Name of Investor	Number of Shares proposed to be issued at \$0.03 each	Number of Options to be granted, exercisable at 5 cents each by 31 March 2012	Number of Options to be granted, exercisable at 7 cents each by 31 March 2013	Number of Options to be granted, exercisable at 10 cents each by 31 March 2014
<b>Stephen Mann's nominee</b>				
Gunz Pty Ltd	1,500,000	500,000	500,000	500,000
<b>Graham Riley's nominees</b>				
Jennifer Sarre	350,001	116,667	116,667	116,667
David Riley	150,000	50,000	50,000	50,000
Michael Riley	50,001	16,667	16,667	16,667
Andrew Riley	50,001	16,667	16,667	16,667
Jonathan Riley	50,001	16,667	16,667	16,667
Equity Holdings Pty Ltd	6,016,662	2,005,554	2,005,554	2,005,554
<b>Chris Rowe's nominee</b>				
Little Breton Nominees Pty Ltd	6,666,666	2,222,222	2,222,222	2,222,222
<b>Laurence Roe's nominee</b>				
Petroe Exploration Services Pty Ltd	666,666	222,222	222,222	222,222

All of the Shares mentioned above will be issued at an issue price of \$0.03 cents per Share, within one month of the date of the Meeting. The Shares will rank equally in all respects with all of the existing ordinary Shares on issue, the terms of which are in the public domain. All of the Options mentioned above are proposed to be issued within one month of the date of the Meeting and otherwise on the terms set out in Annexure A.

The funds raised by the issue of the Shares (approximately \$465,000) will be applied by the Company to continue the Company's exploration and development programs, to pursue potential acquisitions, and for working capital purposes. No funds will be raised upon the grant of the Options. If the Options are exercised, the funds raised by the payment of the exercise price (approximately \$1,136,667) will be applied by the Company to continue the Company's exploration and development programs, to pursue potential acquisitions, and for working capital purposes.

#### **Resolution 9: Issue of Shares and Options to Investmet Limited**

Shareholders are being asked to approve Resolution 9 for the purposes of Listing Rule 7.1 and item 7 of section 611 of the Corporations Act. Listing Rule 7.1 provides generally that a company may not issue securities equal to more than 15% of the Company's issued share capital in any 12 months without obtaining shareholder approval.

45,000,000 Shares are proposed to be issued at an issue price of \$0.03 cents per Share, within three months of the date of the Meeting, to Investmet Limited which is not a Related Party of the Company. The Shares will rank equally in all respects with all of the existing ordinary Shares on issue the terms of which are in the public domain. The funds raised (approximately \$1,350,000) will be applied by the Company to continue the Company's exploration and development programs, to pursue potential acquisitions, and for working capital purposes.

45,000,000 Options are proposed to be issued to Investmet Limited, within three months of the date of the Meeting, on the terms set out in Annexure A, as follows:

- 15,000,000 Options exercisable at \$0.05 expiring 31 March 2012;
- 15,000,000 Options exercisable at \$0.07 expiring 31 March 2013; and
- 15,000,000 Options exercisable at \$0.10 expiring 31 March 2014.

No funds will be raised upon the grant of the Options. If and when the Options are exercised, the funds raised by payment of the exercise price will be applied by the Company to continue the Company's exploration and development programs, to pursue potential acquisitions, and for working capital purposes.

If Resolution 9 is passed, Investmet will hold a total of 45,000,000 Shares and 45,000,000 Options. Taking into account the possible exercise of the Options this increases the Voting Power of Investmet above 20% in the Company and therefore to avoid Investmet breaching the takeovers prohibition in section 606 of the Corporations Act, Shareholders are being asked to approve the increase in Investmet's Voting Power by virtue of the issue of the 45,000,000 Shares and the issue of 45,000,000 Shares following exercise of the 45,000,000 Options, which are the subject of Resolution 9. The disclosures required to be made to Shareholders in relation to compliance with item 7 of section 611 of the Corporations Act are addressed below, since the same disclosures are required to be made in relation to Resolution 10.

**Resolution 10: Issue of Shares and Options to Delta Resource Management Pty Limited and Associates**

Shareholders are being asked to approve Resolution 10 for the purposes of Listing Rule 7.1 and item 7 of section 611 of the Corporations Act. Listing Rule 7.1 provides generally that a company may not issue securities equal to more than 15% of the Company's issued share capital in any 12 months without obtaining shareholder approval.

1,350,000 Shares are proposed to be issued at an issue price of \$0.03 cents per Share, within three months of the date of the Meeting, to Delta Resource Management Pty Ltd, which is not a Related Party of the Company.

5,400,000 Shares are proposed to be issued at an issue price of \$0.03 cents per Share, within three months of the date of the Meeting, to Michael Fotios, an Associate of Delta Resource Management Pty Ltd, neither of whom are a Related Party of the Company.

The 6,750,000 Shares will rank equally in all respects with all of the existing ordinary Shares on issue the terms of which are in the public domain. The funds raised (approximately \$202,500) will be applied by the Company to continue the Company's exploration and development programs, to pursue potential acquisitions, and for working capital purposes.

1,350,000 Options are proposed to be issued to Delta Resource Management Pty Ltd, within three months of the date of the Meeting, on the terms set out in Annexure A, as follows:

450,000 Options exercisable at \$0.05 expiring 31 March 2012;  
450,000 Options exercisable at \$0.07 expiring 31 March 2013; and  
450,000 Options exercisable at \$0.10 expiring 31 March 2014.

5,400,000 Options are proposed to be issued to Michael Fotios within three months of the date of the Meeting, on the terms set out in Annexure A, as follows:

1,800,000 Options exercisable at \$0.05 expiring 31 March 2012;  
1,800,000 Options exercisable at \$0.07 expiring 31 March 2013; and  
1,800,000 Options exercisable at \$0.10 expiring 31 March 2014.

No funds will be raised upon the grant of the Options. If and when the Options are exercised, the funds raised by payment of the exercise price will be applied by the Company to continue the Company's exploration and development programs, to pursue potential acquisitions, and for working capital purposes.

### **Section 611 of the Corporations Act**

The disclosures required to be made to Shareholders in relation to compliance with item 7 of section 611 of the Corporations Act are as follows, in relation to Resolutions 9 and 10.

Section 606 of the Corporations Act prohibits a person acquiring a relevant interest in the issued voting shares of a company if, because of the acquisition, that person's or another person's Voting Power in the Company increases to more than 20%.

Section 611 of the Corporations Act sets out certain exceptions to the general prohibition and permits an increase in Voting Power over 20%. Item 7 of section 611 of the Corporations Act provides a mechanism by which shareholders may approve an issue of shares in a company to a person which would otherwise result in that person's, or another person's, Voting Power in the Company increasing to more than 20%. Under the Corporations Act a person's Voting Power in a company is the total of the votes attaching to the shares in that company in which that person has a relevant interest, and that person's associates (within the meaning of the Corporations Act) have a relevant interest. The Voting Power of a person in the Company is determined by reference to section 610 Corporations Act. By section 608 Corporations Act, in addition to being the registered holder of shares, a relevant interest in shares is also achieved by having power to exercise or control the exercise of votes or disposal of the shares. In addition, a person will be deemed to have a relevant interest in securities held by a company, if the person has over 20% Voting Power in that company.

Associates are determined as a matter of fact, for example where a person controls or influences the board or the conduct of a company's business affairs, or acts in concert with a person in relation to the entity's business affairs.

In order for the Company to comply with the requirements of the Corporations Act, the Company has provided the information below which ASIC Regulatory Guide 74 requires the Company to provide to Shareholders when seeking approval in accordance with item 7 of section 611 of the Corporations Act. In addition the Directors have appointed BDO to prepare the independent expert's report annexed to this Explanatory Statement, in compliance with ASIC Regulatory Guide 74. The objective of commissioning an Independent Experts Report is to provide an opinion for the benefit of Shareholders considering Resolutions 9 and 10, as to whether or not the proposals in Resolutions 9 and 10 are fair and reasonable to the Shareholders who are not Associates of one or more of Investmet Limited, Delta Resource Management Pty Ltd or Michael Fotios.

The report is set out in Annexure B and it is recommended that Shareholders read that report in its entirety. The conclusion is that the proposed transactions are not fair but reasonable to the non Associated Shareholders, when Resolutions 9 and 10 are considered together and assuming both Resolutions 9 and 10 are approved.

The Company provides the following information in accordance with ASIC Regulatory Guide 74:

**Identity of the persons proposing to make the acquisition, their Associates and Relevant Interests:**

Name of Acquiring Party	Associate	Number of Shares being acquired under Resolutions 9 and 10	Number of Shares assuming exercise of Options granted	Total Shares in which Acquiring Party has or is deemed to have a Relevant Interest (includes existing Shareholding)
Investmet Limited	Michael Fotios	45,000,000	45,000,000	90,000,000
Delta Resource Management Pty Ltd	Michael Fotios	1,350,000	1,350,000	2,700,000
Michael Fotios	n/a	5,400,000	5,400,000	10,800,000

**Maximum extent of the increase in Voting Power as a result of Resolutions 9 and 10:**

Name of Acquiring Party	Associate	Voting Power at date of Notice of Meeting	Total Shares in which Acquiring Party has or is deemed to have a Relevant Interest (includes existing Shareholding)	Voting Power after implementation of Resolutions 9 and 10 (ignores subsequent Rights Issue but assumes only acquiring party's Options are exercised)
Investmet Limited	Michael Fotios	Nil	90,000,000	34.5%
Delta Resource Management Pty Ltd	Michael Fotios	Nil	2,700,000	34.5%
Michael Fotios	n/a	Nil	10,800,000	34.5%

The extent to which the Voting Power will alter following the implementation of the Rights Issue announced on ASX to be conducted following the General Meeting is not known. If each of the named parties above take up their entitlement, and other eligible Shareholders do not, then the Voting Power stated above will increase. If each of the named parties above do not take up their entitlement and other eligible Shareholders do take up their entitlement then the Voting Power stated above will decrease. If any of the named parties stated up take up any shortfall under the Rights Issue, then the Voting Power stated above will increase.

**Identity, associations with the associates and qualifications of any person who is intended to or will become a Director if the Shareholders agree to the allotment:**

Stephen Mann is a nominee director of Investmet Limited and his election as a Director is the subject of Resolution 2. Stephen is a Director of and a minority shareholder in Investmet Limited

For personal use only

but does not control the decisions of the Board of Investmet Limited or the decisions of the Investmet Limited shareholders.

No other Directors are proposed to be appointed to the Board following the General Meeting in the foreseeable future.

**Statement of associated parties' respective objectives and intentions regarding the future of the Company in subscribing for Shares, if Shareholders pass Resolutions 9 and 10:**

Investmet Limited, Delta Resource Management Pty Ltd and Michael Fotios each intend to support the Company's growth and development goals in the medium to long term consistent with the ASX announcements made previously by the Company.

In addition, shareholders should be aware that as announced by the Company to ASX, the Company intends to conduct a non renounceable rights issue to Shareholders who are eligible to participate on a record date to be announced, which will be fully underwritten by Investmet Limited pursuant to the terms of an underwriting agreement which the parties intend to enter into following the date of the General Meeting and prior to the issue of the rights issue prospectus. The extent to which Investmet Limited's Voting Power will increase as a result of the underwriting depends on the size of the shortfall which is not possible to predict with any degree of certainty as at the date of this Notice of General Meeting. The size of the shortfall will be determined by the extent to which Shareholders who elect to participate in the rights issue take up their entitlements and apply for any of the shortfall not taken up by other Shareholders. Once the shortfall applications have been dealt with Investmet Limited as the underwriter will be obliged to take up the remainder of the shortfall provided the underwriting agreement has not been validly terminated by either party.

Shareholder approval is not being sought for any increase in Investmet Limited's Voting Power as a result of the underwriting obligation which may be performed by Investmet Limited. Any increase in Voting Power in such circumstances is permitted by the Corporations Act where the terms of the underwriting are fully disclosed in the rights issue prospectus, which requirement the Company intends to comply with when the rights issue prospectus is issued.

**Terms of the proposed allotment and when it is proposed to be completed:**

The subscription funds will be paid and the allotments made no later than three months of the date of the General Meeting. It is envisaged that allotment will occur within 5 business days of the General Meeting.

**The interests of the Directors and their recommendation in relation to Resolutions 9 and 10:**

None of the Directors have any personal interest in the subject matter of or the outcome of Resolutions 9 or 10.

All the Directors support Resolutions 9 and 10 because the additional funding will enable the Company to continue its exploration and development programs, to pursue potential acquisitions, and allow for sufficient working capital.

Investmet Limited has extensive networks in equity and debt finance circles which will become available to the Company as a result of its investment in the Company and entry into the Contract for Services mentioned above. Investmet has recently been involved with other ASX listed companies which have benefited from Investmet's involvement.

### **Resolution 11: Issue of Shortfall Shares and Shortfall Options to Related Parties**

Shareholders are being asked to approve Resolution 11 for the purposes of Listing Rule 10.11. Listing Rule 7.1 provide generally that a company may not issue securities equal to more than 15% of the Company's issued share capital in any 12 months without obtaining shareholder approval. Resolution 11 is necessary in accordance with this principle, although where related parties of the Company (or associates of related parties of the Company) are the recipients of the securities, shareholder approval is sought instead in accordance with Listing Rule 10.11. Where shareholder approval is obtained under Listing Rule 10.11, it is not also required under Listing Rule 7.1.

Listing Rule 10.11 provides that a company must not issue equity securities to a related party of the Company, such as a director or an entity controlled by a director or a person who has reasonable grounds to believe that he will become a related party at any time in the future, without the company obtaining shareholder approval by ordinary resolution. Section 228 of the Corporations Act defines what a related party is for the purposes of this rule. It includes a Director; a person reasonably believed to become a Director at any time in the future, and a company controlled by a Director.

Up to 3,000,000 Shares are proposed to be issued at an issue price of \$0.03 cents per Share, within one month of the date of the Meeting, to one or more of the Related Parties named below, provided there are sufficient Shares forming part of the shortfall arising upon the closing date of the Rights Issue proposed to be conducted by the Company immediately following the General Meeting. All the Shareholders who are eligible to participate in the Rights Issue will have the opportunity to apply for any shortfall Shares. It is necessary to obtain prior Shareholder approval in the case of any Related Parties who wish to subscribe for any shortfall Shares. The Shares will rank equally in all respects with all of the existing ordinary Shares on issue, the terms of which are in the public domain.

Up to 3,000,000 Options are proposed to be issued as follows within one month of the date of the Meeting:

1,000,000 Options exercisable at \$0.05 expiring 31 March 2012;  
1,000,000 Options exercisable at \$0.07 expiring 31 March 2013; and  
1,000,000 Options exercisable at \$0.10 expiring 31 March 2014,  
and otherwise on the terms set out in Annexure A.

The funds raised by the issue of the Shares (up to \$90,000) will be applied by the Company to continue the Company's exploration and development programs, to pursue potential acquisitions, and for working capital purposes. No funds will be raised upon the grant of the Options. If the Options are exercised, the funds raised by the payment of the exercise price (approximately \$220,000) will be applied by the Company to continue the Company's exploration and development programs, to pursue potential acquisitions, and for working capital purposes.

The names of the Related Parties who have expressed an intention to apply for any shortfall Shares and who therefore may be allotted Shares and Options if this Resolution is approved, in any combination, to one or all of them, are: Stephen Mann, Stephen Mann's nominee Gunz Pty Ltd, Graham Riley, Graham Riley's nominees Jennifer Sarre, David Riley, Michael Riley, Andrew Riley, Jonathan Riley, Equity Holdings Pty Ltd, Chris Rowe, Chris Rowe's nominee Little Breton Nominees Pty Ltd, Laurence Roe, and Laurence Roe's nominee Petroe Exploration Services Pty Ltd.

## Glossary

---

In this Explanatory Statement, the following terms have the following meaning unless the context otherwise requires:

<b>Annexure</b>	an annexure to this Explanatory Statement
<b>ASIC</b>	Australian Securities and Investments Commission
<b>Associate</b>	Has the meaning given in the Corporations Act
<b>ASX</b>	ASX Limited
<b>Board</b>	the board of Directors
<b>Company</b>	Target Energy Limited
<b>Constitution</b>	constitution of the Company
<b>Corporations Act</b>	Corporations Act 2001 (Cth)
<b>Director</b>	Director of the Company.
<b>Listing Rules</b>	the ASX Listing Rules
<b>Meeting</b>	The General Meeting of the Company to be held on 23 March 2011
<b>Option</b>	an option to subscribe for a Share
<b>Related Party</b>	Has the meaning given in the Corporations Act
<b>Relevant Interest</b>	Has the meaning given in the Corporations Act
<b>Rights Issue</b>	Has the meaning given in the Corporations Act
<b>Share</b>	A fully paid ordinary share in the capital of the Company
<b>Shareholder</b>	A shareholder of the Company
<b>Voting Power</b>	Has the meaning given in the Corporations Act

## Annexure A - Terms of Options

- (a) Each Option shall entitle the Option holder, when exercised, to one fully paid ordinary share in the Company ("Share").
- (b) The Options are exercisable wholly or in part at any time prior to 5.00 pm (WST) on the expiry dates of either 31 March 2012, 2013 or 2014 ("Expiry Date"), and at the exercise price of either \$0.05, \$0.07 or \$0.10, as indicated on the option certificate or holding statement. Options not exercised by the Expiry Date shall lapse.
- (c) Each Option may be exercised by notice in writing to the Company, together with the payment for the number of Shares in respect of which the Options are exercised, at any time before the Expiry Date. Any notice of exercise of an Option received by the Company will be deemed to be a notice of the exercise of that Option as at the date of receipt.
- (d) An Option does not confer the right to a change in exercise price or a change in the number of the underlying Shares over which the Option can be exercised.
- (e) Shares issued upon exercise of the Options will be issued following receipt of all the relevant documents and payments and will rank equally in all respect with the then issued Shares.
- (f) The Options are not to be quoted on ASX and the Company is under no obligation to apply for quotation of the Options on ASX.
- (g) The Company will apply for quotation on ASX of all Shares issued upon exercise of the Options.
- (h) Subject to the Corporations Act, the Constitution and the Listing Rules, the Options are freely transferable.
- (i) There are no participating rights or entitlements inherent in the Options and Option holders will not be entitled to participate in new issues of securities offered to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 10 Business Days after the issue is announced so as to give Option holders the opportunity to exercise their Options before the date for determining entitlements to participate in any issue.
- (j) If at any time the issued capital of the Company is reorganised, the rights of an Option holder are to be changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

For personal use only

**Annexure B**

For personal use only

**TARGET ENERGY LIMITED**  
Independent Expert Report

9 February 2011



## Financial Services Guide

9 February 2011

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ("BDO" or "we" or "us" or "ours" as appropriate) has been engaged by Target Energy Limited ("Target") to provide an independent expert's report on the proposal to allow Investmet Limited ("Investmet") and its associates to acquire over 20% of the shares on issue, and therefore over 20% of the voting power, of Target. You will be provided with a copy of our report as a retail client because you are a shareholder of Target.

### Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ("FSG"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- ◆ Who we are and how we can be contacted;
- ◆ The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- ◆ Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ Any relevant associations or relationships we have; and
- ◆ Our internal and external complaints handling procedures and how you may access them.

### Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

### Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

### General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice

### **Fees, Commissions and Other Benefits that we may receive**

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee for this engagement is approximately \$22,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

### **Remuneration or other benefits received by our employees**

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

We have received a fee from Target for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

### **Referrals**

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

### **Complaints resolution**

#### *Internal complaints resolution process*

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 Subiaco WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

### **Referral to External Dispute Resolution Scheme**

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service (“FOS”). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561.

Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly via the details set out below.

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001  
Toll free: 1300 78 08 08  
Facsimile: (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

### **Contact details**

You may contact us using the details set out at the top of our letterhead on page 1 of this IER.

## TABLE OF CONTENTS

1.	Introduction	1
2.	Summary and opinion	1
3.	Scope of the Report	4
4.	Outline of the proposal	6
5.	Profile of Target Energy Limited	9
6.	Economic analysis	16
7.	Industry analysis	17
8.	Valuation approach adopted	20
9.	Valuation of Target	21
10.	Valuation of consideration	28
11.	Is the Transaction fair?	30
12.	Is the Transaction reasonable?	31
13.	Conclusion	35
14.	Sources of information	36
15.	Independence	36
16.	Qualifications	37
17.	Disclaimers and consents	37
APPENDIX 1		
	Glossary of Terms	39
APPENDIX 2		
	Valuation Methodologies	40
APPENDIX 3		
	Independent Valuation Reports	42

9 February 2011

The Directors  
Target Energy Limited  
Level 2, 46 Ord Street  
WEST PERTH WA 6005

Dear Sirs

## INDEPENDENT EXPERT'S REPORT

### 1. Introduction

On 13 December 2010, Target Energy Limited (“Target”) or (“the Company”) announced a \$3.6 million capital raising via a two-tranche share placement and a fully underwritten rights issue (collectively “the Capital Raising”). The share placement will raise \$2.73 million and involves the issue of 91,000,000 fully paid ordinary shares at \$0.03 per share and 91,000,000 attaching options. The non-renounceable rights issue will be on a 1:8 pro rata basis and will be fully underwritten by Investmet Limited raising approximately \$930,000.

### 2. Summary and opinion

#### 2.1. Purpose of the report

The directors of Target have requested that BDO Corporate Finance (WA) Pty Ltd (“BDO”) prepare an independent expert’s report (“our Report”) to express an opinion as to whether or not the potential issue of shares in Target to Investmet and its associates (“the Transaction”) is fair and reasonable to the shareholders of Target (“Shareholders”).

Our Report is prepared pursuant to section 611 of the Corporations Act and is to be included in the Explanatory Memorandum for Target to be sent to all Shareholders in order to assist the Shareholders in their decision whether to approve the Transaction.

#### 2.2. Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission (“ASIC”) Regulatory Guide 111 (“RG 111”), ‘Content of Expert’s Reports’ and Regulatory Guide 112 (“RG 112”) ‘Independence of Experts’.

In arriving at our opinion, we have assessed the terms of the Transaction as outlined in the body of this report. We have considered:

- How the value of the assets being acquired compares to the value of the consideration to be paid for the assets;
- The likelihood of a superior alternative offer being available to Target;

- Other factors which we consider to be relevant to the Shareholder in their assessment of the Transaction; and
- The position of the Shareholders should the Transaction not proceed.

### 2.3. Opinion

We have considered the terms of the Transaction as outlined in the body of this report and have concluded that, in the absence of a superior offer, the Transaction is not fair but reasonable to Shareholders.

In our opinion, the Transaction is not fair because the value of the consideration is less than the value of a Target share. However, we consider the Transaction to be reasonable because the advantages of the Transaction to Shareholders are greater than the disadvantages. In particular, the proposed Transaction would raise up to \$8.9 million for investment into the development of the Company's well development (assuming options are exercised).

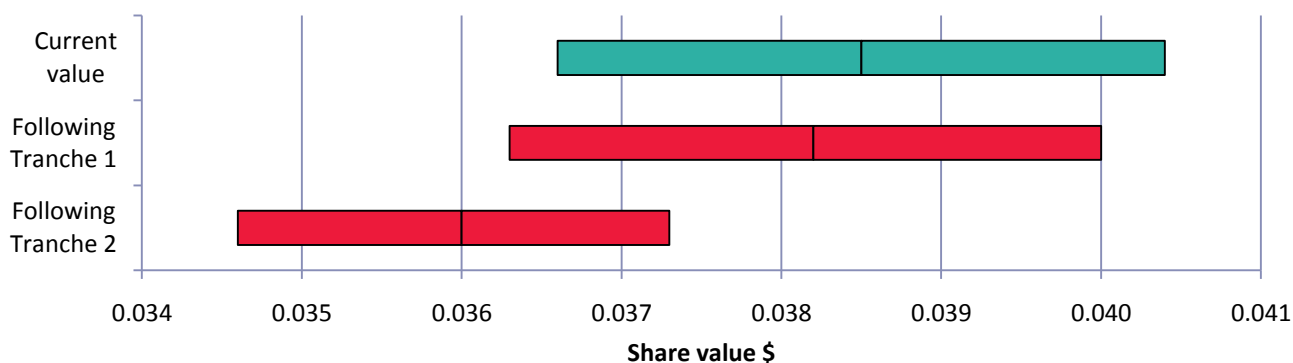
It is also proposed that a rights issue will follow the proposed transaction, providing all current shareholders with the opportunity to acquire shares at the same price per share as the proposed consideration offer price. This will raise a further \$3.2 million for further investment into the Company's well development (assuming options are exercised). Investmet will underwrite this proposed rights issue. No underwriting agreement has yet been executed and the rights issue is subject to the future execution of such an agreement.

### 2.4. Fairness

In Section 11 we determined that the Transaction consideration compares to the value of Target, as detailed hereunder. The value of a Target share and the value of the consideration shares and options is compared below:

Share value \$	Ref	Low	Mid-point	High
Current value of a Target share	9.3	0.0366	0.0385	0.0404
Value of a Target share following Tranche 1	10	0.0363	0.0382	0.0400
Value of a Target share following Tranche 2	10	0.0346	0.0360	0.0373

We note from the table above that the value of a Target share would decrease as a result of the proposed Transaction, as the current value of a Target share is greater than the offer price of the proposed issue of new shares (\$0.03). The above values are presented graphically below and indicate that the Transaction is not fair for Shareholders.



## 2.5. Reasonableness

We have considered the analysis in Sections 11 and 12 of this report, in terms of both

- advantages and disadvantages of the Transaction; and
- alternatives, including the position of Shareholders if the Transaction does not proceed.

In our opinion, the position of Shareholders if the Transaction is approved is more advantageous than the position if the Transaction is not approved. Accordingly, in the absence of any other relevant information and/or a superior proposal we believe that the Transaction is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
12	Additional funds will be raised via the capital raising for investment into well development and working capital requirements	12	Dilution of existing shareholders
12	Investmet will underwrite the rights issue which will raise additional funds for investment. No underwriting agreement has yet been executed and the rights issue is subject to the future execution of such an agreement	12	Investmet and its associates will hold an interest of up to approximately 35% in Target, if they exercise their share options. Acting collectively they will be able to block special resolutions if they exercise their share options.
12	All shareholders would have the opportunity under the rights issue to acquire shares at the same offer price as is proposed for the new shares to be issued to Investmet of \$0.03.		

Other key matters we have considered include:

Section	Description
12.1	The lack of alternative Transactions
12.2	The practical level of control
12.3	Post announcement movements in share price

### 3. Scope of the Report

#### 3.1. Purpose of the Report

Section 606 of the Corporations Act Regulations (“the Act”) expressly prohibits the acquisition of shares by a party if that acquisition will result in that person (or someone else) holding an interest in 20% or more of the issued shares of a public company, unless a full takeover offer is made to all shareholders. As a result of the proposed Transaction, Investmet and its associates will acquire an interest, and therefore also voting power, of more than 20%.

Section 611 permits such an acquisition if the shareholders of that entity have agreed to the issue of such shares. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares. Section 611 states that shareholders of the company must be given all information that is material to the decision on how to vote at the meeting.

Regulatory Guide 74 issued by ASIC deals with “Acquisitions Agreed to by Shareholders”. It states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of Target, by either:

- a) Undertaking a detailed examination of the Transaction themselves, if they consider that they have sufficient expertise; or
- b) By commissioning an Independent Expert's Report.

The directors of Target have commissioned this Independent Expert's Report.

#### 3.2. Regulatory guidance

The Act does not define the meaning of “fair and reasonable”. In determining whether the Transaction is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction it should be analysed on a basis consistent with a takeover bid.

In our opinion the Transaction is a control transaction as defined by RG 111 and we have therefore assessed the Transaction to consider whether in our opinion it is fair and reasonable to Shareholders.

#### 3.3. Adopted basis of evaluation

RG 111 suggests that the main purpose of an independent expert's report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the transaction.

Having regard to RG 111, we have completed our Report as follows:

- An investigation into the advantages and disadvantages of the Transaction (Sections 12.5 and 12.6);
- An analysis of any premium for control received (Section 10.1.1.1); and
- An analysis of any other issues that could be reasonably anticipated to concern Shareholders as a result of the Transaction (Section 12).



This assignment is a Valuation Engagement as defined by APES 225 Valuation Services. A Valuation Engagement means an engagement or assignment to perform a valuation and provide a valuation report where we determine an estimate of value of the Company by performing appropriate valuation procedures and where we apply the valuation approaches and methods that we consider to be appropriate in the circumstances

For personal use only

## 4. Outline of the proposal

On 13 December 2010 Target announced a proposal requiring shareholder approval for a Capital Raising to support new exploration and acquisitions. This includes a two-tranche share placement and a rights issue as follows:

1. The first tranche placement will raise approximately \$705,000 via the issue of approximately 23.5 million shares at a price of 3.0 cents per share, and a further 23.5 million free attaching unlisted options will be issued at various exercise prices and expiry dates as shown in the table below.
2. The second tranche placement will raise approximately \$2,025,000 through the issue of 67.5 million shares at 3.0 cents per share, and a further 67.5 million free attaching options will be issued at various exercise prices and expiry dates as shown in the table below.
3. The rights issue will raise approximately \$930,000 and will be offered on the basis of one new share for every eight shares held, at an application price of 3.0 cents per share. A further one free attaching option will also be issued for every new share subscribed, held at various exercise prices and expiry dates as shown in the table below. The rights issue will be fully underwritten by Investmet. No underwriting agreement has yet been executed and the rights issue is subject to the future execution of such an agreement.

The total shares and options to be issued per the Notice of General Meeting are summarised below:

Options /shares (number)	Shares	Options expiring on:			Total options	Total shares and options
		31-Mar-12	31-Mar-13	31-Mar-14		
Resolution 4	6,916,668	7,916,659	7,916,669	7,916,673	23,750,001	30,666,669
Resolution 5	6,666,666	2,222,222	2,222,222	2,222,222	6,666,666	13,333,332
Resolution 6	6,666,666	2,222,222	2,222,222	2,222,222	6,666,666	13,333,332
Resolution 7	666,666	222,222	222,222	222,222	666,666	1,333,332
Resolution 8	1,500,000	500,000	500,000	500,000	1,500,000	3,000,000
Resolution 9	45,000,000	15,000,000	15,000,000	15,000,000	45,000,000	90,000,000
Resolution 10	6,750,000	2,250,000	2,250,000	2,250,000	6,750,000	13,500,000
<b>Subtotal</b>	<b>74,166,666</b>	<b>30,333,325</b>	<b>30,333,335</b>	<b>30,333,339</b>	<b>90,999,999</b>	<b>165,166,665</b>
<i>Offer/exercise price</i>	<i>\$0.03</i>	<i>\$0.05</i>	<i>\$0.07</i>	<i>\$0.10</i>		
Total possible cash raised	\$2,225,000	\$1,516,666	\$2,123,333	\$3,033,334	\$6,673,334	\$8,898,334
Rights issue	31,038,432	10,346,144	10,346,144	10,346,144	31,038,432	62,076,864
<b>Total including rights issue</b>	<b>105,205,098</b>	<b>40,679,469</b>	<b>40,679,479</b>	<b>40,679,483</b>	<b>122,038,431</b>	<b>227,243,529</b>
<i>Offer/exercise price</i>	<i>\$0.03</i>	<i>\$0.05</i>	<i>\$0.07</i>	<i>\$0.10</i>		
Total possible cash raised including rights issue	\$3,156,153	\$2,033,973	\$2,847,564	\$4,067,948	\$8,949,485	\$12,105,638

The related tranche placements are referenced in the Notice of General Meeting as follows:

Resolution	Shares			Options		
	Tranche 1	Tranche 2	Total	Tranche 1	Tranche 2	Total
Resolution 3	16.83	-	16.83	-	-	-
Resolution 4	-	6.92	6.92	16.83	6.92	23.75
Resolution 5	6.67	-	6.67	6.67	-	6.67
Resolution 6	-	6.67	6.67	-	6.67	6.67
Resolution 7	-	0.66	0.66	-	0.66	0.66
Resolution 8	-	1.50	1.50	-	1.50	1.50
Resolution 9	-	45.00	45.00	-	45.00	45.00
Resolution 10	-	6.75	6.75	-	6.75	6.75
<b>Total</b>	<b>23.50</b>	<b>67.50</b>	<b>91.00</b>	<b>23.50</b>	<b>67.50</b>	<b>91.00</b>

The table below outlines the share structure of the above share and options to be issued, should the proposed Transaction be approved.

Target Share structure (number of shares in millions)	Tranche 1 shares	%	Tranche 2 shares	%	Investmet Exercise Options	%	All options & Notes	%
Current shareholders	174.14	96.3%	174.14	70.1%	174.14	58.0%	246.85	59.9%
Unrelated parties (Res. 4)	-	-	6.92	2.8%	6.92	2.3%	30.67	7.4%
Mr G Riley nominees (Res. 5)	6.67	3.7%	6.67	2.7%	6.67	2.2%	13.34	3.2%
Mr C Rowe nominee (Res. 6)	-	-	6.67	2.7%	6.67	2.2%	13.34	3.2%
Mr L Roe nominee (Res. 7)	-	-	0.67	0.3%	0.67	0.2%	1.34	0.3%
Mr S Mann nominee (Res. 8)	-	-	1.50	0.6%	1.50	0.5%	3.00	0.7%
Investmet & associates (Res. 9 & 10)	-	-	51.75	20.8%	103.50	34.5%	103.50	25.2%
<b>Total</b>	<b>180.81</b>	<b>100.0%</b>	<b>248.31</b>	<b>100.0%</b>	<b>300.06</b>	<b>100.0%</b>	<b>412.04</b>	<b>100.0%</b>
Rights issue			31.04		62.08		62.08	
Total Capital Raising			279.35		362.14		474.12	

Note: Investmet and associates relate to Investmet Limited, Delta Resource Management Pty Ltd and Mr Michael Fotios.

The table above does not reflect current share and option holdings of Mr C Rowe, Mr L Roe and Mr S Mann. Please see section 12.2 for an analysis of the practical level of control following approval of the Transaction.

Subsequent to the Capital Raising, Investmet and its associates will hold 20.8% of the shares in Target. If all options issued in tranches 1 and 2 of the Transaction were exercised, Investmet and its associates would hold a 30.5% interest in Target's shares on issue, and therefore 30.5% of the voting power.

If only Investmet and its associates, and no other party, exercised its options, their shareholding would increase to 34.5%. However there are currently also on issue:

- 53 million listed options exercisable at \$0.10 per share before 31 October 2010;
- 6 million unlisted options exercisable at \$0.20 per share before 30 June 2011 (of which 2 million are held by Mr L Roe);
- 0.75 million unlisted options exercisable at \$0.12 per share before 7 August 2011; and
- 650,000 notes convertible to 13 million shares.

If these were all also converted and/or exercised then the interests of Investmet and its associates would decrease to 25.1%.

The rights issue on the basis of one new share and one free attaching option for every eight shares held will further increase the number of shares on issue from 248 million to 279 million. This will have no impact on the percentage shareholdings assuming all shareholders equally participate. However if no parties participate in the rights issue, Investmet, as the underwriters, would gain a further 31 million shares which would increase Investmet and its associates' shareholding to 29.6%, and a further 31 million share options which if exercised would increase their shareholding to 40.6%. However this assumes that there are no subunderwriters of the rights issue, and it is considered unlikely that Investmet would be required to take the full shortfall. Approval from shareholders for the rights issue is not being sought under the resolutions of the Notice of Meeting. No underwriting agreement has yet been executed and the rights issue is subject to the future execution of such an agreement.

### Board members

The following changes are proposed to be made to the Board members:

- Graham Riley has succeeded Paul Lloyd as Non-Executive on 1 January 2011;
- Michael Martin intends to resign with effect from the close of the General Meeting; and
- Stephen Mann is to be appointed as Non Executive Director.

## 5. Profile of Target Energy Limited

### 5.1. History

Target is an Australian petroleum exploration and production company based in Perth, Western Australia. The company was formed to explore for and produce hydrocarbons in the US and listed on the Australian Securities Exchange on 27 November 2006. The Company's current Board members are as follows;

- Mr C Rowe Non Executive Chairman;
- Mr L Roe Managing Director;
- Mr M Martin Non Executive Director; and
- Mr G Riley Non Executive Director (succeeding Mr P Lloyd who resigned 31 December 2010).

Recent capital raisings in the Company are outlined below:

Date	Description	Number of shares on issue
At 30 June 2008		78,244,500
7 July 2008	Rights issue of 26.1 million shares at \$0.13 to raise \$3.4 million	104,311,167
10 July 2008	10,000 shares issued at \$0.25 to raise \$2,500	104,321,167
1 December 2008	Shares issued on option conversion at \$0.25	104,321,170
18 September 2009	7.4 million shares issued at \$0.055 to raise \$407,000	111,721,170
19 October 2009	Rights issue of 44.7 million shares at \$0.055 to raise \$2.46 million	156,409,638
9 November 2009	0.8 million shares issued at \$0.055 to raise \$49,380	157,307,450
8 October 2010	5 shares issued on option conversion at \$0.10	157,307,455
23 December 2010	16.8 million shares issued at \$0.03 to raise \$0.5 million	174,140,788

## 5.2 Oil and gas projects

Below is a summary of Target's current oil and gas projects.

### 5.2.1 Wharton County, Texas

- **Merta #1 Highway 71 Gas Discovery (25% working interest)**

Target has a 25% working interest in the gas and condensate prospect, situated in Wharton County approximately 100 kilometres west-southwest of Houston. Production commenced on 10 June 2010, and by 30 June 2010 the well had produced 16 million cubic feet of gas ("MMCFG") plus 197 barrels of condensate. The well currently is producing at a rate of approximately 0.4 million cubic feet of gas per day ("MMCFGD") with 5 barrels of oil per day ("BOPD").

### 5.2.2 St Martin Parish, Louisiana

Target has interests in a number of wells in and around the Section 28 oil and gas field, located approximately 25 kilometres east of the city of Lafayette in Louisiana:

- **SML (Snapper) #A-1 Oil and Gas Discovery (25% working interest)**

Drilling commenced at Snapper #A1 on 14 March 2007 reaching a measured depth of 9,852 feet in April 2007. The well was designed to test multiple targets in a fault block on the north east side of the Section 28 salt dome. The well was brought online on 2 August 2007 and commenced production at a rate to 1.04 MMCFGD with 3-4 BOPD. The remaining proved and probable reserves are estimated at 10,090 barrels of oil and condensate, and 224,330 MMCFG net to Target's working interest and after royalties.

- **SML (Snapper) #A-2 Oil and Gas Discovery (25% working interest)**

The SML #A-2 well was designed to test multiple targets in a fault block separate and adjacent to the fault block tested by the SML #A-1 well. Drilling commenced on 28 October 2007 and the well commenced production on 9 February 2008.

At 30 June 2010 the well had produced 461 MMCFG plus 28,114 barrels of oil and condensate. The well shut down from 16 August to 15 October 2009 for the installation of pumping equipment. The well is presently producing approximately 25 BOPD plus 60 MCFGD. The remaining proved and probable reserves are estimated at 2,770 barrels of oil and condensate, and 60,680 MMCFG net to Target's working interest and after royalties.

- **SML (Snapper) #A-3 Oil and Gas Discovery (25% working interest)**

This well became active on 12 November 2009 and is located roughly 300 metres north of the Snapper #A-1 well. At 30 June 2010 the well had produced 238 MMCFG plus 1,680 barrels of oil and condensate. Average production is approximately 720 MCFGD with minor oil. Remaining reserves are estimated to be 520 barrels of oil and condensate and 131,380 MMCFG net to Target's working interest and after royalties.

- **Beyt #1 Side-track (15% working interest)**

Drilling commenced on 6 December 2007, reaching a total depth at 3,252 metres. The well had produced 40.7 MMCFG plus 1,534 barrels of condensate until its shut-in on 21 July 2008.

### 5.2.3 Cameron Parish, Louisiana

- **East Chalkley Field (35% working interest)**

Operated by Magnum Hunter Resources, the East Chalkley Project is an oil field 33 kilometres southeast of the town of Lake Charles in Cameron Parish, Louisiana. At 31 December 2010 the Pine Pasture #1 well had produced approximately 30,000 barrels of oil and is currently producing approximately 17 BOPD. At 31 December 2010 the Pine Pasture #2 well had produced approximately 62,000 barrels of oil and is currently producing approximately 83 BOPD. Two additional producing wells are planned to be drilled in the second half of 2011. An Independent Technical Specialist has estimated the field's most likely remaining total recoverable reserves and resources at 1,608,000 barrels of oil (511,000 barrels of proved and probable ("2P") reserves, plus 1,097,000 barrels of contingent resources ("2C")). The upside estimate of the remaining total recoverable reserves and resources is 3,908,000 barrels of oil (965,000 barrels of proved, probable and possible reserves ("3P") plus 2,943,000 barrels of contingent resources ("3C")).

### 5.3 Historical balance sheet

Balance Sheet (\$)	As at 31 December 2010	As at 30 June 2010	As at 30 June 2009
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	1,800,961	1,164,162	2,599,641
Trade and other receivables	188,982	170,170	257,265
Other financial assets	50,000	50,000	50,000
<b>TOTAL CURRENT ASSETS</b>	<b>2,039,943</b>	<b>1,384,332</b>	<b>2,906,906</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant & equipment	5,046,480	5,630,856	4,368,445
Deferred exploration, evaluation & development expenditure	1,570,515	1,790,695	1,072,088
<b>TOTAL NON-CURRENT ASSETS</b>	<b>6,616,996</b>	<b>7,421,551</b>	<b>5,440,533</b>
<b>TOTAL ASSETS</b>	<b>8,656,939</b>	<b>8,805,883</b>	<b>8,347,439</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	274,699	130,198	304,046
Other short term loans	850,000	-	-
<b>NET ASSETS</b>	<b>7,532,240</b>	<b>8,675,685</b>	<b>8,043,393</b>
<b>EQUITY</b>			
Issued capital	18,016,574	17,511,574	14,865,758
Reserves	(924,246)	401,688	574,405
Accumulated losses	(9,560,088)	(9,237,577)	(7,396,770)
<b>TOTAL EQUITY</b>	<b>7,532,240</b>	<b>8,675,685</b>	<b>8,043,393</b>

Source: Target Audited Financial Statements 30 June 2010, draft Unaudited Financial Statements 31 December 2010.

We have not undertaken a review of Target's unaudited accounts in accordance with Australian Auditing and Assurance Standard 2405 "Review of Historical Financial Information" and do not express an opinion on this financial information. However nothing has come to our attention as a result of our procedures that would suggest the financial information within the management accounts has not been prepared on a reasonable basis.

Target's most significant assets relate to property plant and equipment, which primarily relates to oil and gas properties. These properties include construction, installation or completion of infrastructure facilities such as pipelines and platforms, and capitalised borrowing costs, transferred exploration and evaluation costs, and the cost of development wells. Depreciation is calculated over the life of proved plus probable reserves. Exploration, evaluation and development expenditure is capitalised within property, plant and equipment in the period in which they are incurred and are carried at cost less accumulated impairment losses.

Other financial assets of \$50,000 relate to a term deposit held as security by a bank in respect of a credit card facility.

Other short term loans at 31 December 2010 of \$850,000 include \$650,000 received for the issue of convertible notes in November 2010. The notes were issued to raise funds for further exploration and development of the East Chalkley Project and, if the notes are not converted to options (at the noteholders' election) then the loans are repayable in November 2012. The remaining balance of \$200,000 relates to amounts received in advance from Mr Graham Riley in application for shares which cannot be allotted until shareholder approval has been gained.

Target's reserves decreased from \$0.4 million at June 2010 to a negative balance of \$0.9 million at December 2010. This was primarily due to a decrease in the foreign currency translation reserve. Target's functional and presentation currency is Australian dollars however it has two foreign operations, TELA Garwood Limited LP and TELA Louisiana Limited Inc., for which the functional currency is US dollars. Translation losses of \$1.3 million were incurred in the period from 1 July 2010 to 31 December 2010.

Target has operating lease commitments of approximately \$144,000 as at 31 December 2010, and planned drilling costs of approximately \$1.4 million.

## 5.4 Historical income statements

Income Statement \$	6 months ended 31 December 2010	Year ended 30 June 2010	Year ended 30 June 2009
Revenue	528,602	1,239,341	1,685,246
<b>Expenses</b>			
Amortisation	-	(1,235,616)	(661,329)
Exploration costs	-	-	(695,553)
Takeover expense	-	(15,935)	(491,435)
Oil and gas production expenses & taxes	(248,765)	(460,213)	(363,604)
Employee benefits expense	(225,720)	(367,340)	(362,819)
Impairment of current assets	-	-	(328,452)
Consultants	(21,200)	(209,236)	(180,139)
Directors' fees	(27,500)	(167,000)	(136,416)
Travel and accommodation	(73,552)	(124,751)	(113,211)
Accounting expense	(59,130)	(69,663)	(106,269)
Office expenses	(43,532)	(85,920)	(93,525)
Listing fees	(12,445)	(20,684)	(45,046)
Audit fees	(21,000)	(34,505)	(31,960)
Foreign exchange loss	(9,358)	(32,361)	-
Insurance	(20,791)	(26,437)	(25,278)
Legal expenses	(19,005)	(75,948)	(12,097)
Share registry expense	(8,901)	(24,053)	(35,343)
Depreciation expense	-	(6,978)	(25,473)
Share-based payments	-	-	(15,175)
Other expenses	(60,214)	(123,508)	(96,697)
<b>Total expenses</b>	<b>(851,113)</b>	<b>(3,080,148)</b>	<b>(3,819,821)</b>
Loss before income tax expense	(322,511)	(1,840,807)	(2,134,575)
Income tax expense	-	-	-
<b>Net loss</b>	<b>(851,113)</b>	<b>(1,840,807)</b>	<b>(2,134,575)</b>

Source: Audited Financial Statements 30 June 2010, draft Unaudited Financial Statements 31 December 2010.

Depreciation/amortization of oil and gas properties of \$1.2 million and \$0.7 million was incurred in the years ended June 2010 and 2009 respectively. Related costs have not yet been recorded in the draft accounts for the 6 months ended 31 December 2010.

Exploration expenditure of \$0.7 million was written off in the year ended June 2009 following abandonment of Thoroughbred No. 1 and Garwood No. 1 in Colorado County, Texas.

Expenses of \$0.5 million were incurred in the year ended 30 June 2009 in successfully defending a hostile takeover bid launched by Blaze Asset Pty Limited.

## 5.5 Capital structure

The share structure of Target as at 21 January 2011 is outlined below:

	Number of shares
Total Ordinary Shares on Issue and despatched	174,140,788
Top 20 Shareholders	53,630,453
Top 20 Shareholders - % of shares on issue	30.80%

The range of shares held in Target as at 21 January 2011 is as follows:

Range of Shares Held	No. of Ordinary Shareholders	Number of shares held	% Issued Capital
1-1,000	47	7,121	0.00%
1,001-5,000	82	298,522	0.17%
5,001-10,000	122	1,026,486	0.59%
10,001-100,000	629	27,474,449	15.78%
100,001 - and over	283	145,334,210	83.46%
<b>TOTAL</b>	<b>1,163</b>	<b>174,140,788</b>	<b>100%</b>

Source: Target share registry

The ordinary shares held by the most significant shareholders as at 21 January 2011 are detailed below:

Name	Number of Ordinary Shares	Percentage of Issued Shares
Mrs Annabel Kate Glover	6,300,000	3.62%
Petroe Exploration Services Pty Ltd	5,200,000	2.99%
HSBC Custody Nominees	4,212,982	2.42%
Hosier Investment Pty Ltd	4,128,461	2.37%
Minsk Pty Ltd	3,570,527	2.05%
Mr David Shane Miller	3,000,000	1.72%
Mr Donald Jeffrey smith & Mrs Patty Smith	3,000,000	1.72%
Comsec Nominees Pty Ltd	2,590,159	1.49%
Mr Gareth Keng Hoe Tan	2,205,230	1.27%
Mr Gregory Loughridge & Mrs Kathryn Loughridge	2,150,000	1.24%
<b>Total Top 10</b>	<b>36,357,359</b>	<b>20.88%</b>
<b>Total Ordinary Shares on Issue and despatched</b>	<b>174,140,788</b>	<b>100%</b>

Source: Target share registry

The most significant Option holders of Target as at 21 January 2011 are outlined below:

Listed option holders	Number of Options	Exercise Price (\$)	Expiry Date
Mr David John Ower	9,095,750	\$0.10	31 October 2012
Mr David Shane Miller	2,500,000	\$0.10	31 October 2012
Mr Matthew David Burford	1,886,674	\$0.10	31 October 2012
Peak Electrical Services Pty Ltd	1,650,000	\$0.10	31 October 2012
GUNZ Pty Ltd	1,500,000	\$0.10	31 October 2012
Planmoor Investments Pty Ltd	1,440,000	\$0.10	31 October 2012
Wil Nominees Pty Ltd	1,000,000	\$0.10	31 October 2012
Mr Peter Geofery Binet	1,000,000	\$0.10	31 October 2012
<b>Subtotal Number of Options (Listed)</b>	<b>18,861,946</b>		
<b>Total Number of Options (Listed)</b>	<b>52,986,275</b>		
Unlisted Option holders			
Laurence Roe	2,000,000	\$0.20	30 June 2011
Michael Martin	2,000,000	\$0.20	30 June 2011
Paul Lloyd	2,000,000	\$0.20	30 June 2011
<b>Subtotal</b>	<b>6,000,000</b>		
Ron Krenzke	500,000	\$0.12	7 August 2011
Stephen Morris	250,000	\$0.12	7 August 2011
<b>Subtotal</b>	<b>750,000</b>		
<b>Total Number of Options (Unlisted)</b>	<b>6,750,000</b>		

Source: Target Audited Financial Statements for the year ended 30 June 2010

In addition, 650,000 convertible notes were issued in November 2010 at an issue price of \$1.00, thereby raising \$650,000 to fund further development of the East Chalkley Oil Field. Of these, 60,000 were issued to Christopher Rowe (Chairman) and 40,000 were issued to Laurence Roe (Managing Director). Each note converts to 20 fully paid ordinary shares in Target at the noteholders' election at a conversion price of \$0.05. The notes are secured by a charge over Target's 100% interest in TELA Louisiana Limited.

The notes will expire 24 months after issue (November 2012), at which point the \$650,000 face value will become repayable.

## 6. Economic analysis

Since the previous Reserve Bank of Australia (“RBA”) Board meeting in September 2010, concerns about the creditworthiness of a number of European governments have again become the main focus of financial markets, with a marked rise in sovereign bond spreads for some euro-area countries and an increase in volatility. At the same time, recent data suggest that the Chinese and Indian economies have continued to grow strongly and price pressures, particularly for food, have picked up in China as well as a number of other economies in Asia. Modest growth is continuing in the United States.

For Australia, the terms of trade are at their highest level since the early 1950s, and national income is growing strongly as a result. Recent information indicates that, as had been expected, private investment is beginning to pick up in response to high levels of commodity prices. In the household sector thus far, there continues to be a degree of caution in spending and borrowing, which has led to a noticeable increase in the saving rate. Asset values have generally been little changed over recent months and overall credit growth remains quite subdued, notwithstanding evidence of some greater willingness to lend.

Employment growth has been very strong over the past year, though some leading indicators suggest a more moderate pace of expansion in the period ahead. After the significant decline last year, growth in wages has picked up somewhat, as had been expected. Some further increase is likely over the coming year.

The exchange rate has risen significantly this year, reflecting the high level of commodity prices and the respective outlooks for monetary policy in Australia and the major countries. This will assist, at the margin, in containing pressure on inflation over the period ahead. Over the next few quarters, inflation is expected to be little changed, though it is likely to increase somewhat over the medium term if the economy grows as expected.

Following the RBA Board’s decision in November 2010 to lift the cash rate, and the subsequent increases by financial institutions, lending rates in the economy are now a little above average. The RBA Board views this setting of monetary policy as appropriate for the economic outlook.

Source: [www.rba.gov.au](http://www.rba.gov.au) Statement 2010-30 by Glenn Stevens, Governor: Monetary Policy Decision 7 December 2010

## 7. Industry analysis

### 7.1 Background

The global oil and gas industry is one of the largest in the world and, as is inherent to large markets, it is dominated by large highly integrated companies. The scale of operations by such companies, spanning exploration to marketing, and the requirement for considerable initial investment represent very high barriers to entry.

The size of the global oil and gas industry decreased by 30.6% in 2009 with a value of US\$2,119.3 billion, representing a compound annual growth rate (“CAGR”) of 4.9% for the period spanning 2005 to 2009. Over the same period span from 2005 to 2009, global market consumption increased with a CAGR of 0.1% to 37.2 billion barrel of oil equivalent (“BOE”) but decreased by 1.6% in 2009. The significant decrease in oil and gas industry revenue and consumption volume over 2009 coincides with the global market downturn.

Domestically, Australia’s oil production is sliding lower, but gas output is growing strongly. The Oil and Gas Production industry represents revenue of over \$30 billion per annum in Australia, producing about 28,500 megalitres of oil and condensate 4,800 megalitres of LPG and 50.7 billion cubic metres of natural gas in 2009-10.

### 7.2 Reserves

#### 7.2.1 Oil

At the end of 2009, proved global oil reserves stood at 1,333.1 billion barrels. This compares to a reserve of 1,085.6 billion barrels at the end of 1999, representing a 22.8% increase over the decade. The geographic distribution of these reserves is set out in the graph below.



Source: BP Statistical Review of World Energy June 2010

The majority of oil reserves are centred in the Middle East, with South and Central America, Europe and Eurasia, and Africa accounting for the majority of the remainder. Daily production statistics are more evenly distributed, with the Middle East producing 30.3% of daily world output, followed by Europe and Eurasia with 22.4%. Within the Middle East, Saudi Arabia claims 19.8% of world oil reserves and produces 12.0% of daily world production, and within Europe and Eurasia, Russia claims 5.6% of reserves and 12.9% of world production.

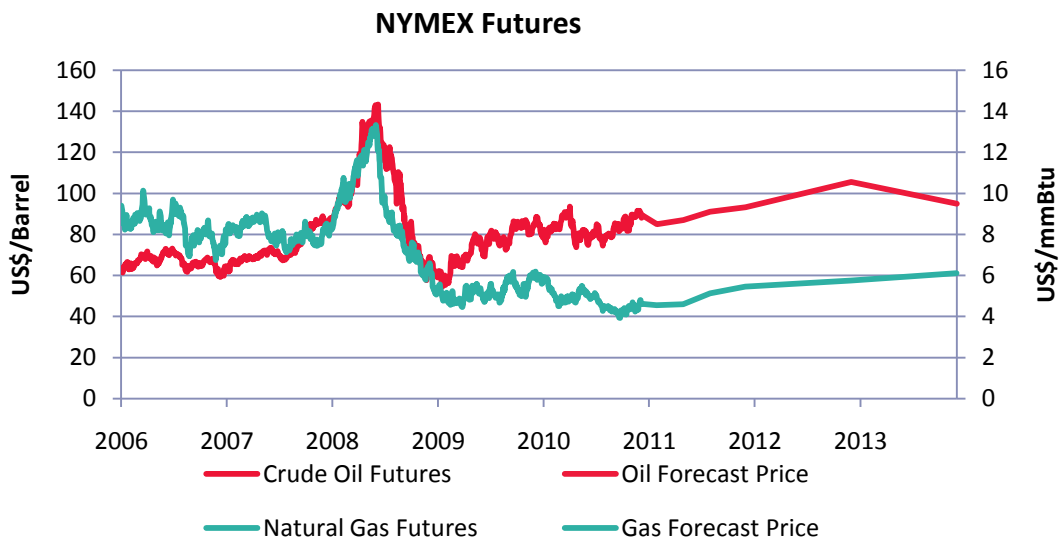
The largest single consumer of oil in 2009 was the US, consuming 21.7% of the world's total, with the next most significant being China, consuming 10.4%. There is much conjecture as to the point at which oil reserves will be exhausted, predominantly due to the unknown ability of technological advances to bring different sources of oil into production and the ongoing discovery of new reserves.

### 7.2.2 Gas

The proved global reserve of natural gas at the end of 2009 was measured at 187 trillion cubic metres, which is a 26.2% increase on the reserve at the end of 1999. Of the global reserve, the Middle East accounts for 40.6%, and Europe and Eurasia 33.7%. United States is the largest producer with 20.1% of world output, followed by the Russia with 17.6%. No other country contributes more than 6% of global production.

### 7.2.3 Price

As reflected in the graph below of New York Mercantile Exchange futures trading, both natural gas and crude oil experienced a steady appreciation from the beginning of 2007. This trend culminated in a peak of over US\$140/barrel and US\$13/million British thermal units (mmBtu) for oil and gas respectively in early July 2008.



Source: Bloomberg

Following their respective peaks, both oil and gas suffered sharp and sustained price declines in response to a deterioration in economic conditions globally. The downward trend continued into 2009 and uncertainty as to whether the worst of the financial crisis had passed ensured volatility in energy trading throughout the year. Oil prices have started to make some ground back after bottoming out at US\$/barrel 54.6 in February 2009, however gas continues to test its floor reaching a low of US\$/mmBtu 3.93 in October 2010.

The market forecast for oil and gas prices both show a stabilisation over the next two years. Crude oil has began a steady incline reflecting constrained supply, continued instability in the Middle East, and burgeoning demand from China. Forecast oil prices have a positive outlook as global economic conditions improve coupled with demand from emerging economies such as India. Gas prices are also tending upward for the intermediate future as the global economic recovery continues. Whilst Egypt is not a significant producer of oil, its control of the Suez Canal and the pipeline and the potential for further instability in the region, may cause the oil prices to increase, in the short term at least.

### 7.3 Outlook

Globally, oil and gas markets experienced a unique period of growth in the lead up to the global financial crisis, growing at a compound annual growth rate of 23.7% for the five years since 2004. However with the sharp and dramatic decrease in economic activity since July 2008, this growth has been stunted. Current forecasts indicate a CAGR of the oil and gas market of just 2% over 2009 to 2014, with volume set to grow at 2% over the same period.

Australia's Oil and Gas Production industry is largely dependent on shifts in US dollar prices and movements in the value of the Australian dollar. The global financial crisis and plummeting oil prices in the second half of 2008 led to a lack of investment that is expected to continue into the future and constrain supply. Demand by China and India is expected to rise as the emerging economies generate post crisis momentum.

While there is sustained pressure to find alternative forms of energy, the reality is that oil, gas and coal still account for the large majority of energy production around the world. As reserves are depleted and alternative fuels become more available with advances in technology, these traditional fuel sources will face a more apparent threat of substitution. However until such point, oil and gas will continue to play a chief role in every economy.

For personal use only

## 8. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Net Tangible Assets on a going concern basis (“NTA”)
- Quoted Market Price Basis (“QMP”)
- Capitalisation of future maintainable earnings (“FME”)
- Discounted Cash Flow (“DCF”)

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information. In our assessment of the value of Target shares we have chosen to employ the following methodologies:

- Net Tangible Assets as our primary method; and
- Quoted Market Price as our secondary method.

We have chosen these methodologies for the following reasons:

- The most significant assets of Target are oil and gas related and as such this requires a specialist valuation that may not be accurately provided by other methodologies;
- Target is listed on the ASX and this provides an indication of the market value where an observable market of the securities exist;
- A number of Target’s projects are currently in exploration and development stage and so do not generate any income. Therefore there are no related historic profits that could be used to represent future earnings: This means that the FME basis is not appropriate;
- Target has no foreseeable future net cash inflows for a number of its projects therefore the application of DCF is not possible.

## 9. Valuation of Target

### 9.1 Net tangible asset valuation of Target

The value of Target's assets on a going concern basis is reflected in our valuation below:

Balance Sheet	Note	As at 31 December 2010 \$	Low valuation \$	Midpoint valuation \$	High valuation \$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents		1,800,961	1,800,961	1,800,961	1,800,961
Trade and other receivables		188,982	188,982	188,982	188,982
Other financial assets		50,000	50,000	50,000	50,000
<b>TOTAL CURRENT ASSETS</b>		<b>2,039,943</b>	<b>2,039,943</b>	<b>2,039,943</b>	<b>2,039,943</b>
<b>NON-CURRENT ASSETS</b>					
Property, plant & equipment	1	5,046,480	3,882,702	4,219,069	4,555,436
Deferred exploration, evaluation and development expenditure	2	1,570,515	1,570,515	1,570,515	1,570,515
<b>TOTAL NON-CURRENT ASSETS</b>		<b>6,606,996</b>	<b>3,944,753</b>	<b>5,789,584</b>	<b>5,030,649</b>
<b>TOTAL ASSETS</b>		<b>8,656,939</b>	<b>5,984,696</b>	<b>7,829,527</b>	<b>7,070,592</b>
<b>CURRENT LIABILITIES</b>					
Trade payables		274,699	274,699	274,699	274,699
Other short term loans		850,000	850,000	850,000	850,000
<b>NET ASSETS</b>		<b>7,532,240</b>	<b>4,859,997</b>	<b>6,704,828</b>	<b>5,945,893</b>
Shares on issue			174,140,788	174,140,788	174,140,788
Value of a Target share			0.0366	0.0385	0.0404

We have been advised that there has not been a significant change in the net assets of Target since 31 December 2010. The table above indicates the net asset value of a Target share is between \$0.0366 and \$0.404 with a midpoint valuation of 0.0385.

Notes:

The following adjustments were made to the net assets of Target as at 31 December 2010 in arriving at our valuation.

**1 Property, plant and equipment**

Property, plant and equipment includes assets relating to office equipment, computer equipment, and oil and gas properties. Oil and gas assets are only classified as deferred exploration, evaluation and development expenditure once a project has reached production stage. We have replaced the book value of this asset with the values of projects, as determined by Independent Technical Specialists.

Project	Working interest	Independent market valuation approach
SML (Snapper) #A-1 Oil & Gas Discovery	25%	We have instructed Harper and Associates (“Harper”) to provide an independent specialist market valuation of the St Martin Parish assets, comprising the 3 SML (Snapper) projects.
SML (Snapper) #A-2 Oil & Gas Discovery	25%	
SML (Snapper) #A-3 Oil & Gas Discovery	25%	
Beyt #1 Side-track	15%	The Beyt 31 well was shut-in on 21 July 2008 and as such has not been valued.
East Chalkley Field	35%	We have instructed RISC Pty Ltd (“RISC”) to provide an independent specialist market valuation of the East Chalkley project.

**Valuation methodologies applied**

- SML (Snapper) Oil and gas discoveries:  
Harper applied the DCF methodology based on proved and probable (“2P”) reserves, and possible reserves increments, to the project, a discussion of which is attached as Appendix 2. A copy of the Independent Technical Specialist’s report is attached in Appendix 3 to this report.
- East Chalkley Field:  
RISC considered both recent transactions and the DCF methodology based on 2P reserves, and considered potential upside of possible and contingent reserves. A copy of the Independent Technical Specialist’s report is attached in Appendix 3 to this report.

RISC has indicated that the net present value for the proved, probable and possible contingent reserves (“3P + 3C”) does not reflect associated technical risks and therefore related valuations should not be taken to be market value. As such we have reflected only the valuation based on 2P reserves in our analysis of the share value.

For personal use only

The range of values for each of Target's exploration assets as calculated by the Independent Valuation Specialists is set out below:

	Proved + Probable	
	Low Value	High value
<b>US\$:</b>		
East Chalkley	2,333,333	3,000,000
SML (Snapper) #A-1 Oil and Gas Discovery	829,480	829,480
SML (Snapper) #A-2 Oil and Gas Discovery	282,750	282,750
SML (Snapper) #A-3 Oil and Gas Discovery	391,590	391,590
	3,837,153	4,503,820
<b>AU\$:</b>		
East Chalkley	2,354,567	3,027,300
SML (Snapper) #A-1 Oil and Gas Discovery	837,028	837,028
SML (Snapper) #A-2 Oil and Gas Discovery	285,323	285,323
SML (Snapper) #A-3 Oil and Gas Discovery	395,153	395,153
	3,872,071	4,544,805
<b>AU\$ less taxation at 40%:</b>		
East Chalkley	1,412,740	1,816,380
SML (Snapper) #A-1 Oil and Gas Discovery	502,217	502,217
SML (Snapper) #A-2 Oil and Gas Discovery	171,194	171,194
SML (Snapper) #A-3 Oil and Gas Discovery	237,092	237,092
	2,323,243	2,726,883

We have assumed a foreign currency exchange rate of USD1:1.0091 AUD Source: Bloomberg

The table above indicates a pre-taxation range of values between \$3.9 million and \$4.5 million, with a midpoint value of \$4.2 million.

TELA Louisiana Limited Inc., the subsidiary with ownership of the three Snapper projects and East Chalkley Field projects, has tax losses to carry forward of US\$11.2 million, based on the 30 June 2009 tax return. On this basis, taxation would not be paid on the above projects, and therefore the valuations pre-taxation have been included in our assessment of net assets.

The remaining balance presented represents the net book value of office and computer equipment only. A depreciation charge has not been recorded in the accounts for the six months ended 31 December 2010, and therefore should be recorded for the remaining office and computer equipment. We have made an approximation of the relevant charge based on relevant amounts recorded in prior periods, the resulting net book value being approximately \$10,000.

## 2 Deferred exploration, evaluation and development expenditure

The deferred exploration, evaluation and development expenditure relates to the Merta #1 Highway 71 gas discovery. We are advised that there has not been sufficient production from this well to allow the calculation of reserves, having been acquired in August 2009 and drilling having commenced in June 2010. Therefore we have not been provided with an independent market valuation for these assets and have not adjusted the related book value in the balance sheet.

## 9.2 Quoted Market Prices for Target Securities

To provide a comparison to the valuation of Target in Section 9.1, we have also assessed the quoted market price for a Target share.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.22 suggests that when considering the value of a company's shares for the purposes of approval under Item 7 of s611 the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

- control over decision making and strategic direction
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

Whilst Investmet and its associates will not be obtaining 100% of Target, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. RG 111.24 states that the expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in Section 12.

Therefore, our calculation of the quoted market price of a Target share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

### Minority interest value

Our analysis of the quoted market price of a Target share is based on the pricing prior to the announcement of the Transaction. This is because the value of a Target share after the announcement may include the affects of any change in value as a result of the Transaction. However, we have considered the value of a Target share following the announcement when we have considered reasonableness in Section 12.

Information on the Transaction was announced to the market on 13 December 2010. Therefore, the following chart provides a summary of the share price movement over the year to 10 December 2010 which was the last trading day prior to the announcement.



Source: Bloomberg

The daily price of Target’s shares from 10 December 2009 to 10 December 2010 has ranged from a high of \$0.069 on 14 January 2010 to a low of \$0.017 on 31 August 2010. During this period a number of announcements were made to the market as follows:

Date	Announcement	Closing Share Price Following Announcement		Closing Share Price Three Days After Announcement	
		\$	movement	\$	movement
15 Nov 2010	Pine Pasture 3 Well Timing Update	0.021	(◀ 0%)	0.021	(◀ 0%)
5 Nov 2010	Pine Pasture 3 Well Timing Update	0.022	(▼ 12%)	0.021	(▼ 5%)
29 Oct 2010	Quarterly Report 30 September 2010	0.023	(◀ 0%)	0.025	(▲ 9%)
30 Sep 2010	Convertible Note to Raise \$650,000	0.024	(◀ 0%)	0.020	(▼ 17%)
8 Sep 2010	Drilling to recommence at East Chalkley	0.018	(▼ 10%)	0.021	(▲ 17%)
29 Jul 2010	Quarterly Report 30 June 2010.	0.032	(◀ 0%)	0.023	(▼ 28%)
6 Jul 2010	Presentation July 2010	0.023	(◀ 0%)	0.023	(◀ 0%)
16 Jun 2010	Gas Flows at Highway 71	0.025	(▲ 39%)	0.020	(▼ 20%)
26 May 2010	Highway 71 Completion Update.	0.019	(▼ 10%)	0.019	(◀ 0%)
30 Apr 2010	Quarterly Report 31 March 2010	0.024	(▼ 8%)	0.023	(▼ 4%)
15 Apr 2010	Highway 71 Completion Update	0.030	(◀ 0%)	0.027	(▼ 10%)
26 Mar 2010	Highway 71 Completion Update	0.032	(▲ 3%)	0.031	(▼ 3%)
3 Mar 2010	Highway 71 Completion Update	0.033	(▼ 8%)	0.035	(▲ 6%)
29 Jan 2010	Quarterly Report Ending 31 December 2009	0.043	(▼ 23%)	0.043	(◀ 0%)
29 Jan 2010	Highway 71 Completion Update	0.043	(▼ 23%)	0.043	(◀ 0%)
19 Jan 2010	Highway 71 Completion Update	0.055	(▼ 13%)	0.057	(▲ 4%)
24 Dec 2009	Target Energy - Highway 71 Update	0.054	(▲ 6%)	0.056	(▲ 4%)

The most significant volume of trading in a single day followed an announcement on 16 June 2010 that the Merta #1 well produced positive results from perforation and flow tests. Target had a closing share price 39% higher than the previous day after this announcement. This gain was reduced by 20% three days later as speculation on the success of the well was suppressed.

To provide further analysis of the market prices for an Target share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 13 December 2010.

	10 December 2010	10 Days	30 Days	60 Days	90 Days
Closing Price	\$0.024				
Weighted Average		\$0.0229	\$0.0222	\$0.0228	\$0.0215

The above weighted average prices are prior to the date of the announcement of the Transaction, to avoid the influence of any increase in price of Target shares that has occurred since the offer was announced.

An analysis of the volume of trading in Target shares for the twelve months to 13 December 2010 is set out below:

	Share price low	Share price high	Cumulative Volume traded	As a % of Issued capital
1 day	\$ 0.0240	\$ 0.0240	-	0.00%
10 days	\$ 0.0220	\$ 0.0250	1,419,000	0.90%
30 days	\$ 0.0200	\$ 0.0250	5,635,237	3.58%
60 days	\$ 0.0200	\$ 0.0280	11,303,897	7.19%
90 days	\$ 0.0170	\$ 0.0280	19,249,018	12.24%
180 days	\$ 0.0170	\$ 0.0320	49,925,139	31.74%
1 year	\$ 0.0170	\$ 0.0700	82,555,719	52.48%

This table indicates that Target's shares display a moderate level of liquidity, with 52% of the Company's current issued capital being traded in a twelve month period. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.53 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'deep', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

Our assessment is that a range of values for Targets shares based on market pricing, after disregarding post announcement pricing, is between \$0.020 and \$0.028.

### 10.1.1.1 Control Premium

We have reviewed the control premiums paid by acquirers of oil and gas companies listed on the ASX. We have summarised our findings below:

Transaction Period	Number of Transactions	Average Deal Value (US\$m)	Average Control Premium
2010	1	3,116	48%
2009	1	729	56%
2008	5	799	35%
2007	1	11	2%
<b>Total</b>	<b>8</b>	<b>1,007</b>	<b>35%</b>

Source: Mergerstat/BVR Control Premium Study

We have also reviewed control premiums paid by acquirers of global oil and gas companies. We have summarised our findings below:

Transaction Period	Number of Transactions	Average Deal Value (US\$m)	Average Control Premium
2010	5	5,622	26%
2009	19	181	76%
2008	33	663	35%
2007	19	557	32%
<b>Total</b>	<b>76</b>	<b>1,755</b>	<b>42%</b>

Source: Bloomberg data service

The increased average control premium in global oil and gas companies in 2009 was primarily relating to two acquisitions, San Leon Energy Plc, explorer and producer of oil and gas, and VitolHolding BV (Rosco SA), a holding company with interests in the oil trading and crude oil production. Excluding these acquisitions the global average in 2009 was 54%, and the overall global average 38%.

We have concluded that an appropriate control premium to use in our valuation is between 30% and 40%.

### 10.1.1.2 Quoted market price including control premium

Applying a control premium to Target's quoted market share price results in the following quoted market price value including a premium for control:

Quoted market price including control premium	Low \$	High \$
Quoted market price value	0.020	0.028
Control premium	30%	40%
Quoted market price valuation including a premium for control	0.026	0.039

Therefore, our valuation of an Target share based on the quoted market price method and including a premium for control is between \$0.026 and \$0.039.

### 9.3 Assessment of Target value

The results of the valuations performed are summarised in the table below:

	Low	Midpoint	High
	\$	\$	\$
Net tangible assets (Section 9.1)	0.0366	0.0385	0.0404
ASX market prices (Section 9.2)	0.0260	0.0326	0.0392

Based on the results above we consider the value of a Target share to be between \$0.0366 and \$0.0404. We have relied on the net asset valuation as Target shares are only moderately liquid and therefore the ASX market prices may not give a reliable reflection of the value of the Company.

## 10 Valuation of consideration

The shares to be issued in the proposed Transaction are all to be issued at a price of \$0.03 per share, raising a total of \$2.225 million. The options to be issued as part of the proposed transaction are all to be issued at the following exercise prices:

- \$0.05 expiring on 31 March 2012;
- \$0.07 expiring on 31 March 2013; and
- \$0.10 expiring on 31 March 2014.

If all options are exercised this would raise a total of approximately \$6.673 million.

The total shares and options to be issued, and their respective offer and exercise prices are summarised below:

Number	Shares	Options expiring on:			Total options	Total shares & options	Total possible cash raised
		31-Mar-12	31-Mar-13	31-Mar-14			
Resolution 4	6,916,668	7,916,659	7,916,669	7,916,673	23,750,001	30,666,669	\$1,949,167
Resolution 5	6,666,666	2,222,222	2,222,222	2,222,222	6,666,666	13,333,332	\$688,889
Resolution 6	6,666,666	2,222,222	2,222,222	2,222,222	6,666,666	13,333,332	\$688,889
Resolution 7	666,666	222,222	222,222	222,222	666,666	1,333,332	\$68,889
Resolution 8	1,500,000	500,000	500,000	500,000	1,500,000	3,000,000	\$155,000
Resolution 9	45,000,000	15,000,000	15,000,000	15,000,000	45,000,000	90,000,000	\$4,650,000
Resolution 10	6,750,000	2,250,000	2,250,000	2,250,000	6,750,000	13,500,000	\$697,500
<b>Total</b>	<b>74,166,666</b>	<b>30,333,325</b>	<b>30,333,335</b>	<b>30,333,339</b>	<b>90,999,999</b>	<b>165,166,665</b>	<b>\$8,898,334</b>
Offer/exercise price	\$0.03	\$0.05	\$0.07	\$0.10			
Total possible cash raised	\$2,225,000	\$1,516,666	\$2,123,333	\$3,033,334	\$6,673,334	\$8,898,334	

We have adopted the issue price of the shares and the exercise price of the options as the value of the consideration to be received by the Company.

Presented below is the balance sheet of Target prior to and following approval of the Transaction. We have assumed that the options are not exercised on the basis that they are exercisable at a price that is greater than the value per Target share.

Balance Sheet	Prior to the Transaction	Following Tranche 1	Following Tranche 2
	\$	\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	1,800,961	1,800,961	3,825,961
Trade and other receivables	188,982	188,982	188,982
Other financial assets	50,000	50,000	50,000
<b>TOTAL CURRENT ASSETS</b>	<b>2,039,943</b>	<b>2,039,943</b>	<b>4,064,943</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant & equipment	4,219,069	4,219,069	4,219,069
Deferred exploration, evaluation & development expenditure	1,570,515	1,570,515	1,570,515
<b>TOTAL NON-CURRENT ASSETS</b>	<b>5,789,584</b>	<b>5,789,584</b>	<b>5,789,584</b>
<b>TOTAL ASSETS</b>	<b>7,829,527</b>	<b>7,829,527</b>	<b>9,854,527</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	274,699	274,699	274,699
Other short term loans	850,000	650,000	650,000
<b>NET ASSETS</b>	<b>6,704,828</b>	<b>6,904,828</b>	<b>8,929,828</b>
Shares on issue (number)	174,140,788	180,807,454	248,307,454
Value of a Target share	0.0385	0.0382	0.0360

**Tranche 1 adjustments:**

- We have deducted from short term loans the amount paid in advance by Mr G Riley for the shares proposed to be issued under Tranche 1 (\$200,000).
- We have added the related 6,666,666 shares to the number of shares on issue.

**Tranche 2 adjustments:**

- We have added to cash \$2.0 million that would be raised by the proposed share issue.
- We have added the related 67.5 million shares to the number of shares on issue.

As the exercise price of the proposed options is greater than the value per share, we have assumed that these would not be exercised.

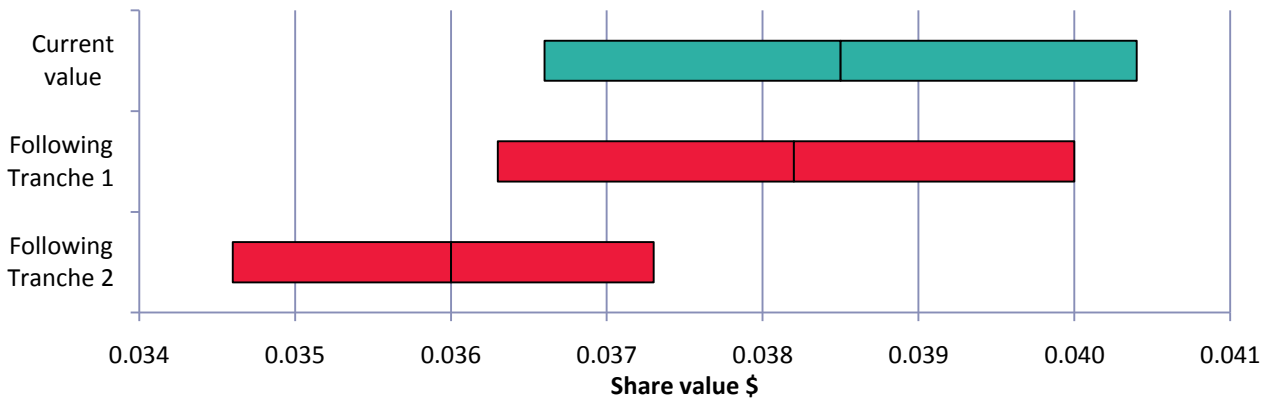
## 11 Is the Transaction fair?

The value of a Target share and the value of the consideration shares and options is compared below:

	Ref	Low \$	Mid-point \$	High \$
Current value of a Target Share	9.3	0.0366	0.0385	0.0404
Value of a Target Share following Tranche 1	10	0.0363	0.0382	0.0400
Value of a Target Share following Tranche 2	10	0.0346	0.0360	0.0373

We note from the table above that the value of a Target would decrease as a result of the proposed Transaction as the current value of a Target share is greater than the offer price of the proposed issue of new shares. Therefore, we consider that the Transaction is not fair.

The above values are presented graphically below.



## 12 Is the Transaction reasonable?

### 12.1 Alternative proposal

We are unaware of any alternative proposal that might offer the Shareholders of Target a premium over the value ascribed to that resulting from the Transaction.

### 12.2 Practical level of control

If the proposed transaction is approved, subsequent to the Capital Raising, Investmet and its associates will acquire 20.8% of the shares in Target. If all options issued in tranches 1 and 2 of the transaction were exercised, Investmet and its associates would hold a 30.5% interest in Target's shares on issue.

If only Investmet and its associates, and no other party, exercised its options, their shareholding would increase to 34.5%. However there are currently also on issue:

- 53 million listed options exercisable at \$0.10 per share before 31 October 2010;
- 6 million unlisted options exercisable at \$0.20 per share before 30 June 2011 (of which 2 million are held by Mr L Roe);
- 0.75 million unlisted options exercisable at \$0.12 per share before 7 August 2011; and
- 650,000 notes convertible to 13 million shares.

If these were all also converted and/or exercised then the interests of Investmet and its associates would decrease to 25.1%.

Target Share structure (number of shares in millions)	Current & Tranche 1 shares	%	Tranche 2 shares	%	Investmet Exercise Options	%	All options & Notes	%
Current shares	166.20	91.9%	166.20	66.9%	166.20	58.0%	232.93	56.5%
Unrelated parties	-	-	6.92	2.8%	6.92	2.3%	30.67	7.4%
Mr G Riley	6.67	3.7%	6.67	2.7%	6.67	2.2%	13.33	3.2%
Mr C Rowe	0.72	0.4%	7.39	3.0%	7.39	2.5%	15.75	3.8%
Mr L Roe	5.58	3.1%	6.25	2.5%	6.25	2.1%	9.71	2.4%
Mr S Mann	1.65	0.9%	3.15	1.3%	3.15	1.0%	6.15	1.5%
Investmet & Associates	-	-	51.75	20.8%	103.50	34.5%	103.50	25.1%
Total Directors and Investmet & Associates	14.61	8.1%	75.20	30.3%	126.95	42.3%	148.44	36.0%
<b>Total</b>	<b>181.06</b>	<b>100.0%</b>	<b>248.30</b>	<b>100.0%</b>	<b>300.07</b>	<b>100.0%</b>	<b>412.04</b>	<b>100.0%</b>
<i>Rights issue</i>			<i>31.04</i>		<i>62.08</i>		<i>62.08</i>	
If no parties participate in the rights issue:								
Investmet & Associates			82.79	29.6%	165.58	45.7%	165.58	34.9%
Other			196.57	70.4%	196.57	54.3%	308.54	65.1%
<b>Total including rights issue</b>			<b>279.35</b>	<b>100.0%</b>	<b>362.15</b>	<b>100.0%</b>	<b>474.12</b>	<b>100.0%</b>

Note: Investmet and associates include Investmet Limited, Delta Resource Management Pty Ltd and Mr Michael Fotios.

The rights issue on the basis of one new share and one free attaching option for every eight shares held will further increase the number of shares on issue from 248 million to 279 million (from 412 million to 474 million assuming all options and notes are exercised). However this will have no impact on the percentage shareholdings assuming all shareholders equally participate.

If the Transaction is approved then Investmet and its associates will hold an interest of approximately 35% in Target. If no parties participate in the rights issue, Investmet, as the underwriters, would gain a further 31 million shares which would increase Investmet and its associates' shareholding to 27.5%, and a further 31 million share options which if exercised (and no other parties exercise their options) would increase their shareholding to 45.7%. However this assumes that there are no subunderwriters of the rights issue, and it is considered unlikely that Investmet would be required to take the full shortfall. Approval from shareholders for the rights issue is not being sought under the resolutions of the Notice of Meeting. No underwriting agreement has yet been executed and the rights issue is subject to the future execution of such an agreement.

However, under resolution 11 of the Notice of Meeting, it is proposed that up to 3 million shortfall shares and 3 million shortfall options may be issued to nominees of G Riley, C Rowe, L Roe and S Mann.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are ordinary resolutions and special resolutions. An ordinary resolution requires over 50% of shares to be voted in favour to approve a matter and a special resolution requires over 75% of shares on issue to be voted in favour to approve a matter.

If the Transaction is approved then Investmet and its associates acting collectively will be able to block special resolutions but will not be able to block general resolutions, or pass resolutions.

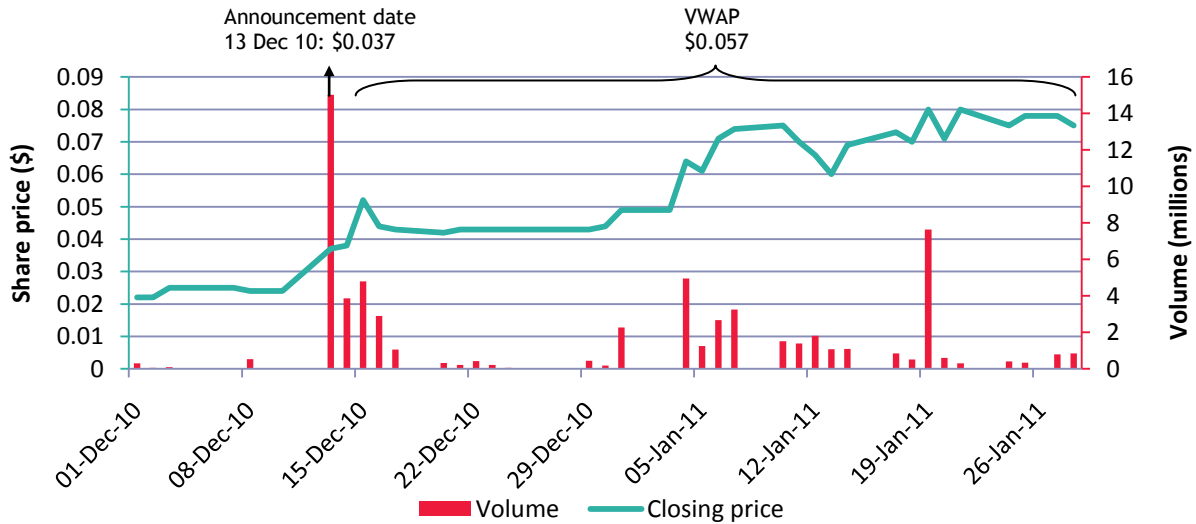
Target's Board currently comprises four directors following the resignation of Paul Lloyd on 31 December 2010 and subsequent appointment of Mr G Riley on 1 January 2011. Investment will nominate one additional director, Mr S Mann, and Mr M Martin intends to resign. Target's Board will therefore consist of four directors of which Investmet's nominated directors will make up 25%.

Investmet's control of Target following the Transaction will be significant when compared to all other shareholders. The next most significant shareholders following the proposed transaction will be Mr C Rowe with 15.6 million share (an interest of 3.8%) and Mr G Riley with 13.3 million shares (an interest of 3.2%). Therefore, in our opinion, while Investmet and its associates will be able to significantly influence the activities of Target, it will not be able to exercise a similar level of control as if it held 100% of Target.

### 12.3 Consequences of not Approving the Proposal

#### Potential decline in share price

We have analysed movements in Target's share price since the Transaction was announced. A graph of Target's share price since the announcement is set out below.



Source: Bloomberg

On the date of the announcement Target's share price increased over 50%. Since then the share price has seen low volatility until early January 2011 when speculation pushed the price to a high of \$0.080.

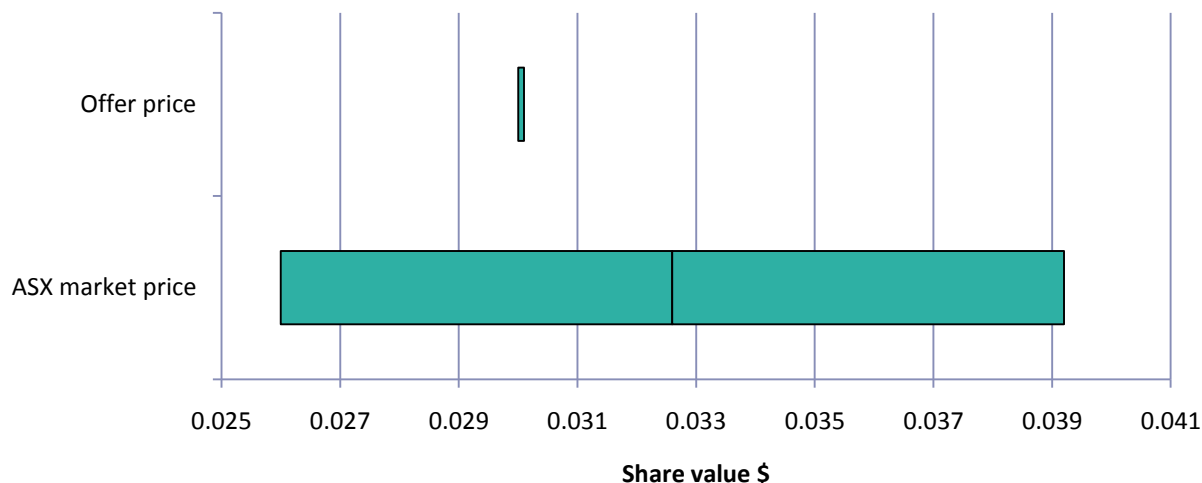
Given the above analysis it is possible that if the Transaction is not approved then Target's share price may decline back to preannouncement levels.

#### 12.4 Quoted market price

In Section 9.3 we concluded the value of a Target share to be between \$0.0366 and \$0.0404 based on the net asset valuation as Target shares are only moderately liquid and therefore the ASX market prices may not give a reliable reflection of the value of the Company. However we note that, had the quoted market price been relied upon for the value of a Target share of 0.0260 and 0.0392, this would compare to the value of the consideration as follows:

	Low \$	Midpoint \$	High \$
ASX market prices (Section 9.2)	0.0260	0.0326	0.0392
Offer price of new share issue	0.0300	0.0300	0.0300
Exercise price of new options	0.0500	0.075	0.1000

The midpoint ASX market price is greater than the offer price for the new shares as presented graphically below. We note that the exercise price of the proposed options would be fair to shareholders, although based on the current value it is assumed that these options would not be exercised.



## 12.5 Advantages of Approving the Transaction

We have considered the following advantages when assessing whether the Transaction is reasonable.

Advantage	Description
Additional funds raised	The Capital Raising would raise \$2.2 million, and the issue of the proposed 91 million share options would raise up to \$6.7 million if exercised. These funds raised would be used to continue Target's exploration and development programs and pursue potential acquisitions, with any remainder used to fund working capital requirements. It is unlikely that Target would need to raise further equity funds in the next 12 months.
Investmet will underwrite the rights issue	Investmet will underwrite the proposed rights issue, on a one for eight share basis, of approximately 31 million shares and 31 million share options, which would raise up to an additional \$0.9 million, and \$3.2 million if all options are exercised. No underwriting agreement has yet been executed and the rights issue is subject to the future execution of such an agreement
The rights issue will be at the offer price of \$0.03	Under the proposed rights issue all current shareholders would also be provided with the opportunity to acquire shares at the same price per share as the proposed consideration offer price (\$0.03).

## 12.6 Disadvantages of Approving the Transaction

If the Transaction is approved, in our opinion, the potential disadvantages to Shareholders include those listed in the table below:

Disadvantage	Description
Dilution of existing shareholdings	<p>The consideration to be paid involves the issue and ratification of approximately 91 million ordinary shares and 91 million share options in Target.</p> <p>Any dilution in the percentage of shares held by a shareholder reduces the interest they have in any potential dividends and distributions that may be paid by a company.</p>
Practical level of control	<p>If the Transaction is approved then Investmet and its associates will hold an interest of up to approximately 35% in Target, if they exercise their share options.</p> <p>An ordinary resolution requires over 50% of shares to be voted in favour to approve a matter and a special resolution requires over 75% of shares on issue to be voted in favour to approve a matter.</p> <p>If the Transaction is approved then Investmet and its associates acting collectively will be able to block special resolutions if they exercise their share options, but will not be able to block ordinary resolutions, or pass resolutions.</p>

## 13 Conclusion

We have considered the terms of the Transaction as outlined in the body of this report and have concluded that the Transaction is not fair but reasonable and in the best interests of the Shareholders of Target.

For personal use only

## 14 Sources of information

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Audited financial statements of Target for the years ended 30 June 2009 and 30 June 2010;
- Unaudited management accounts of Target for the period ended 31 December 2010;
- Independent Technical Specialist report prepared by RISC Pty Ltd;
- Independent Technical Specialist report prepared by Harper and Associated Inc;
- Share registry information;
- Information in the public domain; and
- Discussions with Directors and Management of Target.

## 15 Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of approximately \$22,000 (excluding GST and reimbursement of out of pocket expenses). Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Target Energy Limited in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the Target Energy Limited, including the non provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Target Energy Limited and Investmet Limited and any of their respective associates with reference to ASIC Regulatory Guide 112 "Independence of Experts". In BDO Corporate Finance (WA) Pty Ltd's opinion it is independence of Target Energy Limited and Investmet Limited and their respective associates.

Neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with Target Energy Limited, or their associates, other than in connection with the preparation of this report.

A draft of this report was provided to Target Energy Limited and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

BDO is the brand name for the BDO International network and for each of the BDO Member firms.

BDO (Australia) Ltd, an Australian company limited by guarantee, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of Independent Member Firms. BDO in Australia, is a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International).

## 16 Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty years experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 140 public company independent expert's reports under the Corporations Act or ASX Listing Rules. These experts' reports cover a wide range of industries in Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 12 years in the Audit and Assurance and Corporate Finance areas.

## 17 Disclaimers and consents

This report has been prepared at the request of Target Energy Limited for inclusion in the Explanatory Memorandum which will be sent to all Target Energy Limited Shareholders. Target Energy Limited engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the proposed transaction whereby Investmet Limited ("Investmet") and its associates will acquire more than 20% of the issued capital, and therefore voting power, of Target Energy.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Explanatory Memorandum. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Explanatory Memorandum other than this report.

BDO Corporate Finance (WA) Pty Ltd has not independently verified the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or review of Target or Investmet in accordance with standards issued by the Auditing and Assurance Standards Board. However, we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to the Transaction. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Transaction, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Target, or any other party.

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent valuations for assets held by Target.

The Independent Valuation Specialists engaged for the valuations possess the appropriate qualifications and experience in the property industry to make such assessments. The approaches adopted and assumptions made in arriving at their valuations are appropriate for this report. We have received consents from the Independent Valuation Specialists for the use of their valuation reports in the preparation of this report.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully

**BDO CORPORATE FINANCE (WA) PTY LTD**

**Sherif Andrawes**



Director

**Adam Myers**



Associate Director

Authorised Representative

For personal use only

## APPENDIX 1 Glossary of Terms

Reference	Definition
The Act	The Corporations Act
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited trading as the Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
Target	Target Energy Limited
The Company	Target Energy Limited
DCF	Discounted Future Cash Flows
FMD	Future Maintainable Dividends
FME	Future Maintainable Earnings
Harper	Harper and Associates Inc.
Independent Valuation Specialists	RISC Pty Limited and Harper and Associates Inc
Investmet	Investmet Limited
Investmet and associates	Investmet Limited, Delta Resource Management Pty Ltd and Mr Michael Fotios
RISC	RISC Pty Limited
NTA	Net Tangible Assets
The Transaction	<p>The proposal to issue and ratify approximately 91 million shares and 91 million share options in Target, of which approximately 52 million shares and 52 millions options will be issued to Investmet and its associates.</p> <p>Investmet will then underwrite a rights issue of a further approximately 31 million shares and 31 million share options to raise up to an additional \$3.2 million if the options were exercised. No underwriting agreement has yet been executed and the rights issue is subject to the future execution of such an agreement.</p>
Our Report	This Independent Expert's Report prepared by BDO
VWAP	Volume Weighted Average Price
Shareholders	Shareholders of Target not associated with Investmet and its associates

## APPENDIX 2 Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

### 1 Net tangible asset value on a going concern basis (“NTA”)

Asset based methods estimate the market value of an entity’s securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity’s valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity’s value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when entities are not profitable, a significant proportion of the entity’s assets are liquid or for asset holding companies.

### 2 Quoted Market Price Basis

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a “deep” market in that security.

### 3 Capitalisation of future maintainable earnings (“FME”)

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax (“EBIT”) or earnings before interest, tax, depreciation and amortisation (“EBITDA”). The capitalisation rate or “earnings multiple” is adjusted to reflect which base is being used for FME.

#### 4 Discounted future cash flows (“DCF”)

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

#### 5 Multiple of Exploration Expenditure (“MEE”)

The Past Expenditure method is a method of valuing exploration assets in the resources industry. It is applicable for areas which are at too early a stage of prospectivity to justify the use of alternative valuation methods such as DCF. The Past Expenditure method is often referred to as the Multiple of Exploration Expenditure method.

Past expenditure, or the amount spent on exploration of a tenement, is commonly used as a guide in determining value. The assumption is that well directed exploration adds value to a property. This is not always the case and exploration can also downgrade a property. The Prospectivity Enhancement Multiplier (“PEM”) which is applied to the effective expenditure therefore commonly ranges from 0.5 to 3.0. The PEM generally falls within the following ranges:

- 0.5 to 1.0 where work to date or historic data justifies the next stage of exploration;
- to 2.0 where strong indications of potential for economic mineralisation have been identified; and
- to 3.0 where ore grade intersections or exposures indicative of economic resources are present.



APPENDIX 3 Independent Valuation Reports

For personal use only

For personal use only

## HARPER & ASSOCIATES, INC.

CONSULTANTS AT OIL AND GAS TECHNOLOGY

8815 MANHATTAN BLVD.  
SUITE 201  
FORT WORTH, TEXAS 76120

G. MICHAEL HARPER  
PRESIDENT  
[www.harper-associates.com](http://www.harper-associates.com)

(817) 457-9555  
(FAX) (817) 457-9569  
[m@harper-associates.com](mailto:m@harper-associates.com)

January 27, 2011

BDO Corporate Finance (WA) Pty Ltd  
Attn: Mr. Sherif Andrawes, Director  
Level 8, 256 St Georges Terrace  
Perth WA 6850  
Australia

Re: Target Energy Limited Evaluation  
Section 28 Field, St. Martin Parish, La.  
As Of June 30, 2010

Dear Mr. Andrawes:

A reserve evaluation was prepared as of June 30, 2010 on the oil and gas interests of Target Energy Limited ("Target"). Evaluated leases, operated by Cypress Productions, Inc. ("Cypress"), are in the Section 28 field located in St. Martin Parish, Louisiana. The productive sands are: Hackberry A-4 and A-1, Marg Tex Upper 3, Lower 3 and 4, Camerina and the Marg Howe at depths of 9,100 to 10,000 feet. A description of the properties is presented in the attached "Overview".

Target Energy has a 25% working interest in the #A-1 and #A-2 wells. For the well #A-3, Target owns 21.75% working interest in the Hackberry sands and a 25% interest in the shallower sands. Beyond the #A-3 well, no further drilling is planned by the operator as this time. However, our performance review indicated the need for an economic and geologic feasibility on drilling two take-points that drain oil reserves remaining, updip of Pan Am wells and downdip of wells #A-2 and #A-3.

SML #A-1, #A-2 and #A-3 wells are currently on production. Production from the #A-1 well is presently from the Upper 3<sup>rd</sup> Marg Tex and 4<sup>th</sup> Marg Tex sands in fault block I. The #A-2 well production is from the Upper 3<sup>rd</sup> Marg Tex sand in fault block III. The #A-3 well production is from the Hackberry A-4 sand in fault block I. Produced gas is sold into the Southern Natural Gas system and associated oil is stored onsite to be periodically trucked to a sales point. Production will continue from the sands until depleted, at which time the zone will be abandoned and the next shallower sand completed for production. This is the operator's standard practice.

Proved ("1P"), Probable ("2P") and Possible ("3P") reserve classes are reported herein. Subcategories are as follows; producing and behind-pipe reserve estimates for St. Martin wells A-1, A-2 and A-3.

Harper & Associates, Inc. ("H&A") has prepared cash flows and assessed net present values for petroleum production and exploitation properties of Target as set out above. Because no consideration has been given to Target's other assets or liabilities the evaluation is not that of the company.

### EVALUATION ECONOMIC ASSUMPTIONS

**Price Parameters.** We have researched industry oil and gas transactions and found the following price forecasts reasonable. Prices for years 2010, 2011, 2012, 2013, 2014, 2015 and beyond are as follows: Oil US\$ per STB; 78.72, 81.63, 83.15, 84.17, 85.32 and 86.24; Gas US\$ per MMBTU; 4.78, 5.28, 5.63, 5.84, 6.09, and 6.11. Gas BTU content is considered and volumes shrunk by 5 percent to adjust for inert gases and fuel.

**Cost Parameters.** Well operating costs are based on actual expense history for 2010. Expenses include the G&A fee per well. Producers have costs averaging \$6,500 per month per well including transport fees plus \$2.00 per barrel of water produced. Production severance and ad valorem taxes are deducted from the revenue. Expense and investments are not escalated. Corporate taxes have not been deducted for the purposes of our assessment. We understand that BDO Corporate Finance (WA) Pty Ltd will adjust for corporate taxes as appropriate.

**EVALUATION METHODOLOGY**

Geological and engineering analysis was conducted of the seven productive sands in the field. Our geologic evaluation defined fault blocks ("FB") or reservoirs; FB I, FB II and FB III. The reservoir fluids are 1) unsaturated oil, 2) free gas and 3) gas-cap with a small unknown size, associated oil column. In the FBs, the oil reservoirs have GOR of 1000/1 and recovery factors ("RF") under partial water drive (19% RF) and strong water drive (38-45% RF). These drive factors have a 75% confidence level. The gas reservoirs are 100% volumetric or depletion drive. Gas-cap reservoirs have little support from aquifer and RFs are 65% and 80% of gas-in-place with a 90% confidence level for these factors.

Proved or 1P reserves are based on LKG or LKO levels or known O/W contacts by log or production data. There were no G/W contacts. The bulk acre-feet to the Lowest Known levels or water contact are the proved part of a reservoir. The Probable or 2P reserves are the bulk acre-feet defined by an equal distant level from the proved to possible levels. The Possible or 3P reserves contain acre-feet to the structurally lowest well in a FB that has sand but untested. FB I and III reservoirs have lowest known fluid levels, and gas-oil or water contacts. FB II is a volumetric or bounded reservoir and gas reservoirs with LKG levels. FB I contains Hack A-1 and A-4 gas and 3<sup>rd</sup> Marg Tex oil in reservoirs A and B. FB III contains Hack A-1 and A-4 oil reservoirs, A and B. Reservoir B is structurally lower and separate.

Water drive reserves are based on fluid and rock properties. For these reservoirs, oil and gas rate forecast are based on analogy reservoirs with similar reservoir properties. Partial water and gas drive reserves are based on material balance. Future completions are based on historical gas rate performance of analogy reservoir.

H&A's conclusions of the pre-tax values of Target's net interests in the petroleum production and exploitation projects are set out below:

**PRESENTATION OF CONCLUSIONS**

Values are at 06/30/10 as indicated Discount rates on a before-tax basis.	Oil + Cond Net STB	Gas Net MCF	Net Present Value of Target's net Interest (US\$ million)
			Discount Rate 10.0%
<b>SML (Snapper) #A-1</b>			
Proved + Probable (2P) reserves	10,090	224,330	0.829480
Possible reserves increment	1,270	84,600	0.155940
<b>SML (Snapper) #A-2</b>			
Proved + Probable (2P) reserves	2,770	60,680	0.282750
Possible reserves increment	6,960	6,820	0.320880
<b>SML (Snapper) #A-3</b>			
Proved + Probable (2P) reserves	520	131,380	0.391590
Possible reserves increment	280	27,690	0.050020

**DATA ACQUISITION.** Available information includes well data, geologic logs, oil and gas completion, and pressure and production histories through June 30, 2010. Additional information was obtained on offset wells completed in correlative geologic formations with similar production performance. During our analysis, we were given access to data as was desired and consulted freely with employees of Target and Cypress.

Data used in the preparation of the evaluation was obtained from the records of the operators in area, Target, Cypress Production, Inc. and state commissions, public records and consultant studies. Interests were accepted as represented. Authorized personnel can review basic reservoir and geologic data together with engineering work on file.

#### **RESERVE DEFINITIONS**

Reserve classifications are in accordance with the rules and guidelines of World Petroleum Congress ("WPC") definitions. Pricing parameters were provided by H&A.

Reserve Estimates. The determination of the reserves herein is based on petroleum engineering principles, supported by independent geologic interpretations that involve direct and indirect characterization and estimates of reservoir properties. These properties are derived from data available at the time of preparation. One should not construe that the reserve quantities are exact. As additional data becomes available or well operating conditions change, it is likely that oil or gas recovery factors of a reservoir will be better defined. Consequently, the estimated reserves change with those factors.

#### **DECLARATION**

BDO Corporate Finance (WA) Pty Ltd, in its capacity as Independent Expert to the Directors of Target, has appointed H&A to act as an Independent Technical Specialist. The Technical Specialist is required to advise BDO Corporate Finance (WA) Pty Ltd in relation to the valuation of the petroleum production and exploitation properties of Target.

The assessment of petroleum assets is subject to uncertainty because it involves judgments on many variables that cannot be precisely assessed, including reserves, future oil and gas production rates, the costs associated with producing these volumes, access to product markets, product prices and the potential impact of fiscal/regulatory changes.

The statements and opinions attributable to H&A are given in good faith and in the belief that such statements are neither false nor misleading. In carrying out its tasks, H&A has considered and relied upon information obtained from Target as well as information in the public domain. The information provided to H&A has included both hard copy and electronic information supplemented with discussions between H&A and key Target and Cypress staff.

Whilst every effort has been made to verify data and resolve apparent inconsistencies, neither H&A nor its servants accept any liability for its accuracy, nor do we warrant that our enquiries have revealed all of the matters, which an extensive examination may disclose. In particular, we have not independently verified property title, encumbrances, regulations that apply to these assets. H&A has also not audited the opening balances at the effective date of past recovered and unrecovered development and exploration costs, undepreciated past development costs and tax losses.

We believe our review and conclusions are sound but no warranty of accuracy or reliability is given to our conclusions.

#### **EVALUATOR RESUME'**

This evaluation was conducted and/or supervised by Mr. Michael Harper, President. He served on the Board of Directors of the Society of Petroleum Engineers for the term 1986-1989. He has practiced professional petroleum engineering for 35 years. Before founding his consulting firm, Harper spent five years involved in oil and gas evaluations, property appraisals and reservoir engineering with the firm of CG&A, Inc. His engineering studies involved United States and International areas. Previously he had been with Placid Oil Company for 10 years. There Harper's experience included five years working as senior reserve, production and reservoir engineer at the Placid headquarters in Dallas, Texas. Fields studied were inland, wetlands and offshore in respective states of Alabama, Colorado, Florida, Louisiana, Mississippi, New Mexico, Oklahoma, Texas, Utah and Wyoming. Overseas evaluations were oil structures in the North and the Mediterranean Seas. His five years of experience, onshore and offshore, was spent in field supervision and the engineering design of workovers and drilling wells.

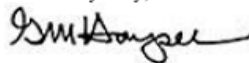
Harper's education was at Louisiana State University where he received Bachelor and Master of Science Degrees in Petroleum Engineering. Academic honor societies are Pi Epsilon Tau, Tau Beta Pi and Phi Kappa Phi. Professional engineering registrations are in Texas and Louisiana. Memberships in professional associations at the local, state and national levels are the Society of Petroleum Engineers, the American Association of Petroleum Geologists, the Society of Petroleum Well Log Analysts and the Society of Petroleum Evaluation Engineers. Evaluation courses and seminars include geologic description of oil and gas reservoirs, gas well performance and appraisal, computer applications and 1979-2003 Symposiums on Hydrocarbon Economics and Evaluation. He was appointed the secretary of the Fort Worth Petroleum Club for 1996-98.

#### EVALUATOR QUALIFICATIONS

I, Michael Harper, a consulting Professional Petroleum Engineer, with an office at 6815 Manhattan Blvd. Ste 201, Fort Worth, Texas 76120, hereby certify:

1. That I am President of Harper & Associates, Inc. and I did prepare this reserve report with corresponding economic values of the interests of certain Target leases in Louisiana.
2. That I graduated in Petroleum Engineering in 1966 with a Bachelor of Science degree and Master of Science degree in 1968 from Louisiana State University at Baton Rouge, Louisiana. Academic honor societies are Pi Epsilon Tau, Tau Beta Pi and Phi Kappa Phi.
3. That I am a registered Professional Engineer in Louisiana #13687 and Texas #34481. That I am a certified earth scientist - SIPES #2861. That I have thirty-two years experience in drilling, production, reservoir studies and evaluations of Canada, Mediterranean, North Sea and United States oil and gas fields.
4. That Memberships held in professional associations: the Society of Petroleum Engineers (#070557); the American Association of Petroleum Geologists; the Society of Petroleum Well Log Analysts; the Society of Petroleum Evaluation Engineers; and the American Association of Drilling Engineers. He served on the National Board of Directors of the Society of Petroleum Engineers for the term 1986-1989. He served as National Director of the Society of Petroleum Evaluation Engineers for the term 2000-2003.
5. That Principal or its employees in the firm have no direct or indirect interests, nor do they expect to receive any direct or indirect interest in the oil and gas properties reviewed nor do they have any direct or indirect interest in the properties of Target.
6. That I am an independent engineer contracted to review certain leases of Target in Texas.
7. That I have no direct or indirect interests in the actual outcome from the reports that have been prepared for Target.
8. That a field inspection of the properties was not made; such an inspection was deemed unnecessary in view of the available data, our experience in the evaluated field operations and the nature of the properties being reviewed.

Yours very truly,



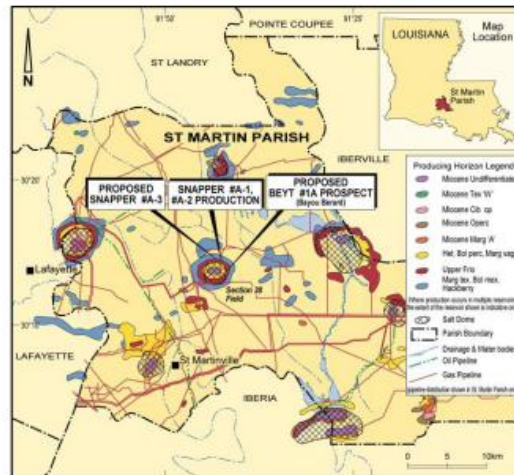
G. Michael Harper, President  
**HARPER & ASSOCIATES, INC.**

## Overview of Projects

### SML(Snapper) #A-1, #A-2, #A-3 wells, St Martin Parish, Louisiana

Target Energy Limited (Target) has entered into agreements with Cypress Productions, Inc of Texas ("Cypress"), to drill a number of prospects in and around the Section 28 oil and gas field, located approximately 15 miles east of the city of Lafayette in St Martin Parish, Louisiana.

In 1999 the Section 28 field area was covered by the Catahoula 3D seismic survey, 34 square miles of which was later purchased and reprocessed by Cypress. The reprocessing and subsequent remapping of the data has revealed a number of prospective drilling targets in which Target is involved.



#### SML (Snapper) #A-1

Drilling at SML #A-1 commenced on 14 March 2007, reaching a measured depth of 9,852 feet on 23 April 2007. The well was designed to test multiple targets in a fault block on the north east side of the Section 28 salt dome. Log analysis indicated a number of pay zones in the well and SML #A-1 was completed as a producing well. Pay zones were noted in the 3rd and 4th Marg Tex, Marg Howe and Camerina Sands

The well was brought online on 2 August 2007 and commenced production at a rate of 1.04 MMCFGD with 3 - 5 BOPD.

#### SML (Snapper) #A-2

The SML #A-2 well was designed to test multiple targets in a fault block separate and adjacent to the fault block tested by the SML #A-1 well. Drilling commenced on 28 October 2007 and the well was drilled to a total depth at 10,100 feet. Log analysis revealed multiple pay zones including the Hackberry A1 & A4 sands, the Marg Howe, 1<sup>st</sup> Camerina and the 3<sup>rd</sup> and 4<sup>th</sup> Marg Tex sands.

The SML #A-2 well commenced production on 9 February 2008.

#### SML (Snapper) #A-3

The SML #A-3 well is located on the north-eastern flank of the Section 28 salt-dome and targeted zones downdip of the SML #A-1. Drilling operations commenced on June 30, 2009 and the well was drilled to a total depth of 10,643. Log analysis revealed multiple pay zones including Hackberry A1 & A4 sands, the Marg Howe, 1<sup>st</sup> Camerina, the 3<sup>rd</sup> and 4<sup>th</sup> Marg Tex sands and a new upper 3<sup>rd</sup> Marg Tex sand.

The SML #A-3 well commence production on 18 November 2009 from the Hackberry A-4 zone at a rate of 1,070 MCF/D, 8 BCPD and no water.

**Development Status**

Target Energy has a 25% working interest in the #A-1, #A-2 and #A-3 wells.

All wells are currently on production. Production from the #A-1 well is presently from the Upper 3<sup>rd</sup> and 4<sup>th</sup> Marg Tex Sands with the #A-2 well producing from the Upper 3<sup>rd</sup> zone. At the #A-3 well, production is from the Hackberry A-4 sand. Production will continue from these zones until depleted, at which time the zone will be abandoned and next shallow zone completed for production. This is the operator's standard practice.

The wells have been drilled from the same pad and share the same production facilities.

Gas is sold into the Southern Natural Gas system and associated oil is stored onsite to be periodically trucked to a sales point.

No further drilling is planned by the operator in these locations. However, our performance review indicated the need for an economic and geologic feasibility on drilling two take-points that drain oil reserves remaining, updip of Pan Am wells and downdip of wells #A-2 and #A-3.

For personal use only

For personal use only



Independent Technical Specialist's Report  
on Target Energy Limited's interest  
in the East Chalkley Field

on behalf of  
BDO Corporate Finance (WA) Pty Ltd

Strictly Confidential

2 February 2011

INTEGRITY EXPERIENCE ADVICE

## DECLARATION

BDO Corporate Finance (WA) Pty Ltd ("BDO Corporate") in its capacity as Independent Expert to the Directors of Target Energy Limited ("Target Energy") has commissioned RISC Pty Ltd ("RISC") to provide an Independent Technical Specialist's Report Update on Target Energy's interest in the East Chalkley Field. The original report was prepared in 2009 on behalf of Grant Thornton (WA) Financial Services Pty Ltd ("Grant Thornton").

RISC has reviewed the reserves/resources in accordance with the Society of Petroleum Engineers Petroleum Resource Management System (SPE-PRMS) and standards and estimated Net Present Value and Expected Monetary Value of the Resources.

The assessment of petroleum assets is subject to uncertainty because it involves judgments on many variables that cannot be precisely assessed, including reserves, future oil and gas production rates, the costs associated with producing these volumes, access to product markets, product prices and the potential impact of fiscal/regulatory changes.

The statements and opinions attributable to RISC are given in good faith and in the belief that such statements are neither false nor misleading. In carrying out its tasks, RISC has considered and relied upon information obtained from BDO Corporate and Target Energy as well as information in the public domain. The information provided to RISC has included both hard copy and electronic information supplemented with discussions between RISC and key Target Energy staff.

Whilst every effort has been made to verify data and resolve apparent inconsistencies, neither RISC nor its servants accept any liability for its accuracy, nor do we warrant that our enquiries have revealed all of the matters, which an extensive examination may disclose. In particular, we have not independently verified property title, encumbrances, regulations that apply to this asset(s). RISC has also not audited the opening balances at the valuation date of past recovered and unrecovered development and exploration costs, undepreciated past development costs and tax losses.

We believe our review and conclusions are sound but no warranty of accuracy or reliability is given to our conclusions.

RISC has no pecuniary interest, other than to the extent of the professional fees receivable for the preparation of this report, or other interest in the assets evaluated, that could reasonably be regarded as affecting our ability to give an unbiased view of these assets.

Our review was carried out only for the purpose referred to above and may not have relevance in other contexts.

## CONFIDENTIALITY

The information contained in this document is strictly confidential. BDO Corporate agrees not to appropriate, copy or in any other manner reproduce or otherwise disclose any of the information contained in this document to any other person (other than the employees or servants of the purchaser acting in the course of their employment with BDO Corporate and Target Energy).

## COPYRIGHT

This document is protected by copyright laws and is intended for the use of the client only. Any unauthorised reproduction or distribution of the document or any portion of it may entitle a claim for damages.




### DOCUMENT CONTROL

#### Independent Technical Specialist's Report on Target Energy Limited's interest in the East Chalkley Field

Client Name	BDO Corporate	Client Representative	Gemma Rhydderch	
RISC Coordinator	Joe Salomon	RISC Job #	10.0111	Client Order #

#### Approvals

	Name	Signature	Date
Authorised For Release By	Joe Salomon		4 Feb 2011

**TABLE OF CONTENTS**

<b>1</b>	<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>2</b>	<b>EAST CHALKLEY FIELD .....</b>	<b>3</b>
2.1	Exploration, Drilling and Production History .....	3
2.2	Proposed Development Plan .....	4
2.3	Reservoir Engineering Analysis – East Chalkley .....	6
2.3.1	Production Performance.....	6
2.3.2	Oil Production Forecasting.....	7
2.3.2.1	Developed plus Undeveloped Reserves (Development Scenario-1) .....	8
2.3.2.2	Contingent Resources .....	13
2.4	Production Plan and Cost Forecasts .....	15
2.4.1	Development Scenario-1: 2P & 3P Reserves.....	15
2.4.2	Development Scenario-2: Remaining 2C resources.....	15
2.4.3	Development Scenario-3: Remaining 3C resources.....	16
<b>3</b>	<b>ECONOMIC EVALUATION .....</b>	<b>17</b>
3.1	Inputs to Economic Evaluation .....	17
3.1.1	Pricing.....	17
3.1.2	Inflation .....	17
3.1.3	Discount Rate .....	17
3.1.4	Royalties.....	17
3.1.5	Taxes .....	17
3.2	Evaluation Results.....	17
3.2.1	Reserves .....	17
3.2.2	Contingent Resources .....	18
3.2.3	Valuation of East Chalkley.....	19
<b>4</b>	<b>QUALIFICATIONS AND INDEPENDENCE.....</b>	<b>21</b>
4.1	Qualifications .....	21
4.2	Independence .....	21
<b>5</b>	<b>LIST OF TERMS.....</b>	<b>22</b>



### LIST OF FIGURES

Figure 2-1	Location Map of the East Chalkley Field .....	3
Figure 2-2	Depth Structure Map Showing Pine Pasture-1 and 2 locations and GOC and OWCs.....	4
Figure 2-3	Pine Pasture-3 Bottom Hole Location.....	5
Figure 2-4	Pine Pasture-1 production history .....	6
Figure 2-5	Pine Pasture-2 production history .....	7
Figure 2-6	Pine Pasture-1 water-oil ratio extrapolation .....	8
Figure 2-7	Pine Pasture-1 decline forecast .....	9
Figure 2-8	Pine Pasture-2 decline forecast .....	9
Figure 2-9	Pine Pasture -3 and -4 average forecast range .....	10
Figure 2-10	East Chalkley production forecast – 2P case .....	11
Figure 2-11	East Chalkley production forecast – 3P case .....	11
Figure 2-12	Comparison of 2P and 3P production forecasts .....	12
Figure 2-13	Comparison of 2C and 3C production forecasting .....	14

## LIST OF TABLES

Table 1-1 Target Energy Ltd Reserves at 1 January 2011.....	1
Table 1-2 Target Energy Ltd Contingent Resources .....	1
Table 1-3 Target Energy Ltd Share Net Present Value (10%) of East Chalkley Reserves and Resources at 1 January 2011 .....	2
Table 2-1 East Chalkley Developed and Undeveloped reserves summary .....	12
Table 2-2 East Chalkley Contingent Resources summary .....	13
Table 2-3 Development assumptions for the 2C resources forecasting .....	13
Table 2-4 Development assumptions for 3C resources forecasting .....	14
Table 2-5 Development Scenario-1 Production and Cost Input Forecast.....	15
Table 2-6 Development Scenarios-2 and 3 Production and Cost Input Forecasting .....	16
Table 3-1 Oil Price Forecast (US\$/bbl) .....	17
Table 3-2 Schedule of Royalties Payable by Target Energy for East Chalkley .....	17
Table 3-3 Results of Economic Evaluation (Pre Corporate Tax, Target Energy Share) .....	18
Table 3-4 Results of Economic Evaluation (Post Corporate Tax, Target Energy Share) .....	18
Table 3-5 Results of Economic Evaluation (Pre Corporate Tax, Target Energy Share) .....	18
Table 3-6 Results of Economic Evaluation (Post Corporate Tax, Target Energy Share) .....	18

**1 EXECUTIVE SUMMARY**

BDO Corporate Finance (WA) Pty Ltd (“BDO Corporate”) in its capacity as the Independent Expert has engaged RISC Pty Ltd (“RISC”) to provide an Independent Technical Specialists Report on Target Energy Ltd (“Target Energy”)’s interest in the East Chalkley oil field (Target Energy working interest 35%), Cameron Parish, Louisiana, USA, for inclusion in the Independent Expert’s Report to accompany a Target Statement. This report is an update of the original report prepared in 2009 and a follow-up report in 2010.

The data and information used in the preparation of this report were provided by Target Energy, supplemented by public domain information. RISC has relied upon the information provided and has undertaken the evaluation on the basis of a review and audit of existing interpretations and assessments as supplied by Target Energy making adjustments as necessary.

RISC estimates the following oil reserves attributable to Target Energy’s working interest (35%) in the East Chalkley field:

	Oil (Mstb)	
	Proved +Probable (2P)	Proved +Probable +Possible (3P)
Reserves at 1 Jan 2011 (Target Energy working interest)	179	338

**Table 1-1 Target Energy Ltd Reserves at 1 January 2011**

In addition, RISC has assessed Contingent Resources associated with potential further development opportunities in the East Chalkley Field as follows:

	Oil (Mstb)	
	Best Estimate (2C)	High Estimate (3C)
Resources at 1 Jan 2011 (Target Energy working interest)	313	970

**Table 1-2 Target Energy Ltd Contingent Resources**

It is recognised that certain royalty interests are payable by Target Energy and in circumstances where royalty owners have a right to physical oil volumes, Target Energy’s share would typically be expressed net of these volumes. However, RISC did not have access to full details of the royalty arrangements and therefore the above volumes are reported as Target Energy’s working interest share before deduction of any entitlements to royalty owners. However, the financial liability associated with these royalties has been applied in the economic evaluation shown below.

RISC has constructed a cashflow model based on production and cost forecasts described in this report. The following tables provide post-tax economic results from discounted cashflow modelling for the East Chalkley Reserves and Contingent Resources.

	NPV for Reserves		NPV for Contingent Resources	
	Proved+ Probable (2P)	Proved+ Probable+ Possible (3P)	Best Estimate (2C)	High Estimate (3C)
Target Energy share (NPV10 US\$ million)	1.4	4.4	2.3	8.6

**Table 1-3 Target Energy Ltd Share Net Present Value (10%) of East Chalkley Reserves and Resources at 1 January 2011**

In assessing the market value of Target Energy’s interest in the East Chalkley petroleum assets, RISC has considered 2 approaches:-

1. A recent transaction on the East Chalkley petroleum asset which provides a benchmark valuation
2. Discounted cashflow on Proven and Probable (2P) reserves and Best Estimate (2C) contingent resources applying reasonable relevant discounts to reflect chance of development and a market value.

These methods indicate a range of values from US\$1.4 to 1.8 million with potential for further upside of approximately US\$0.4 million related to Possible reserves and High Estimate resources.

The above values relate to the remaining petroleum resources only and do not take account of petroleum inventories or corporate liabilities/assets.

## 2 EAST CHALKLEY FIELD

### 2.1 Exploration, Drilling and Production History

The East Chalkley Field is located in a very mature hydrocarbon province in Louisiana, Figure 2-1. It lies to the east of the Chalkley Field which was discovered in 1938. The field is currently producing from two wells, Pine Pasture-1 and 2, Figure 2-2. Two additional producing wells, Pine Pasture-3 and 4, are planned to be drilled in 2<sup>nd</sup> and 3<sup>rd</sup> quarter of 2011.

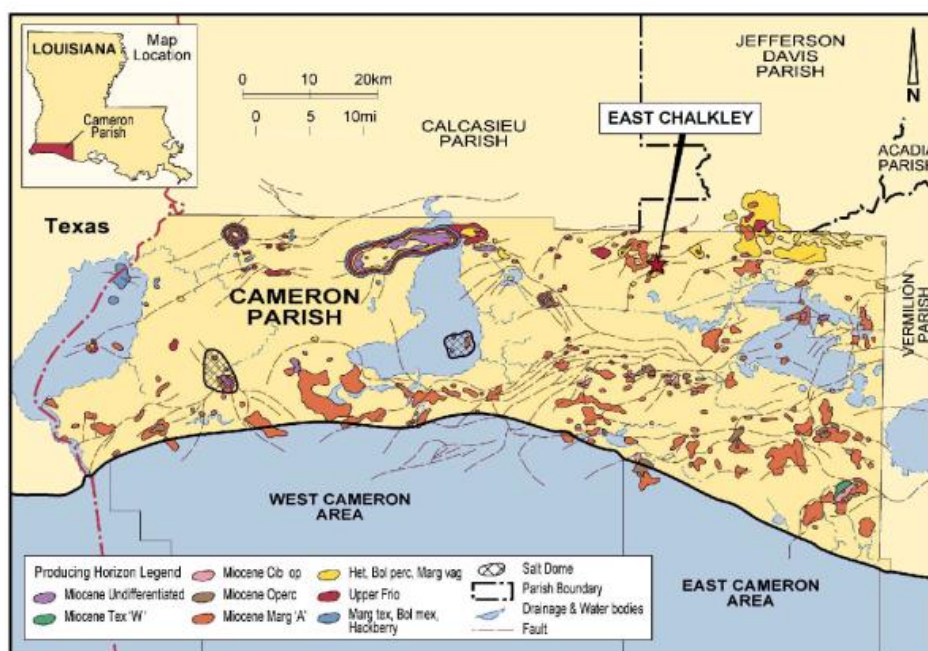


Figure 2-1 Location Map of the East Chalkley Field

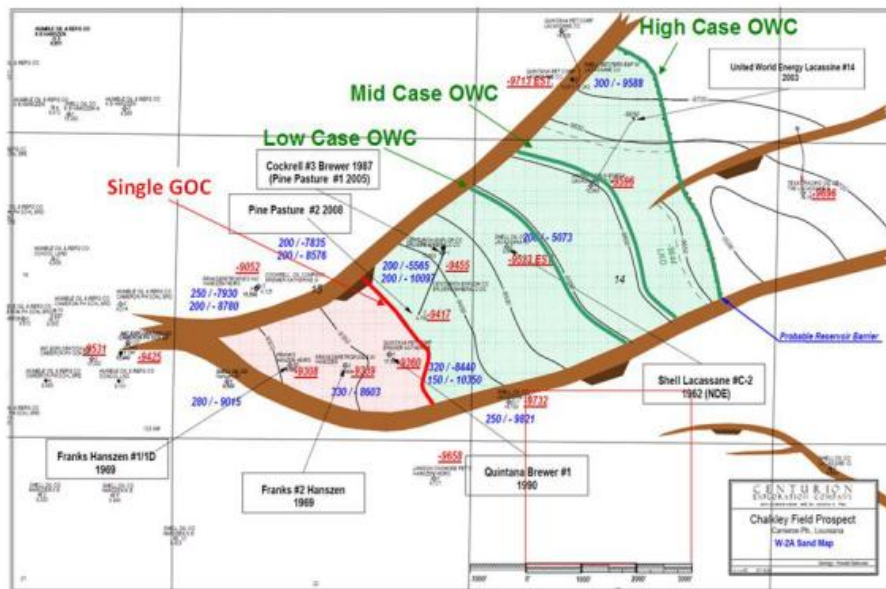


Figure 2-2 Depth Structure Map Showing Pine Pasture-1 and 2 locations and GOC and OWCs

## 2.2 Proposed Development Plan

Target Energy has indicated that its development plan includes two new development production wells drilled in an updip area close to the mapped original GOC where it is anticipated that the water saturations will be close to original level and a water injection well with associated facilities to provide pressure support. Figure 2-3 shows the planned location of Pine Pasture-3 well. An AFE (USD 2.5 million) for Pine Pasture-3 has been approved by the joint venture parties.

For personal use only

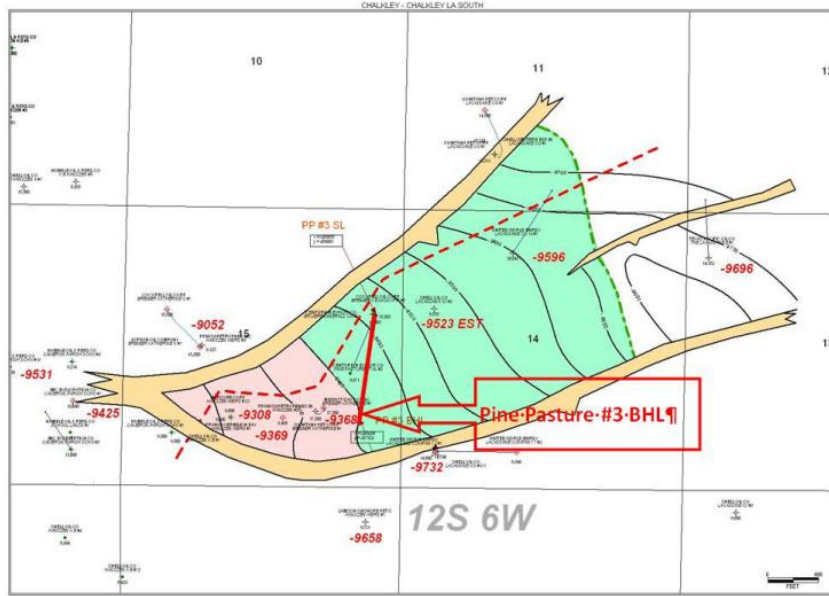


Figure 2-3 Pine Pasture-3 Bottom Hole Location

### 2.3 Reservoir Engineering Analysis – East Chalkley

#### 2.3.1 Production Performance

The production performance of the existing wells to year end 2010 is shown in Figure 2-4 and Figure 2-5. RISC understands that there is a water production allocation problem. Therefore, the watercut and WOR plots are viewed on a qualitative basis with emphasis on oil production trends.

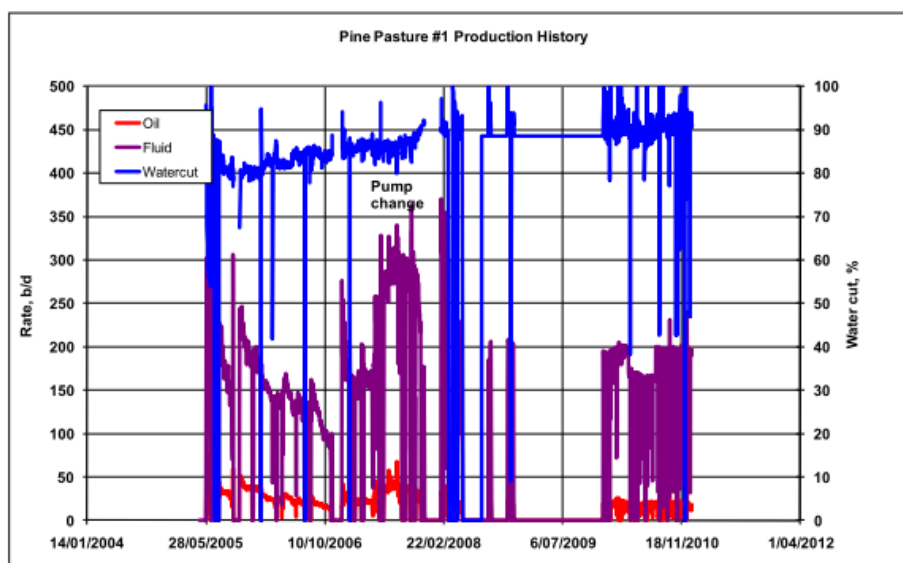


Figure 2-4 Pine Pasture-1 production history

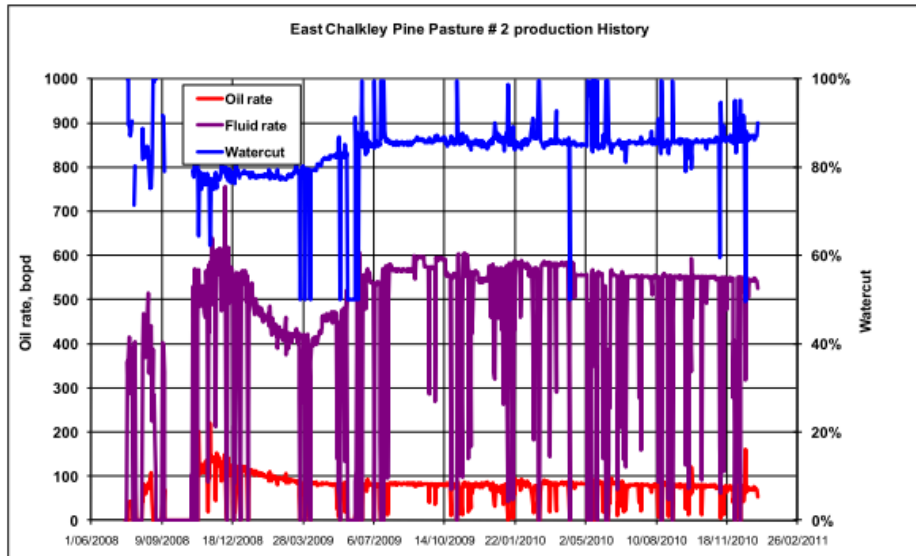


Figure 2-5 Pine Pasture-2 production history

Consistent with log interpretations, both wells produced with initial high watercut which has now stabilised close to 90%, Figure 2-4 and Figure 2-5.

The increased production offtake in Pine Pasture-1 in June 2007 was due to a pump replacement. The well was shut-in in December 2007 for unitisation. Production commenced again in February 2008 but was shut in again during Pine Pasture-2 drilling. Pine Pasture-1 resumed production in late December 2009.

Pine Pasture-2 was drilled in June 2008 and put on an extended production test in July 2008. In September and October 2008, hurricanes Gustav and Ike disrupted production operations. Since June 2009 the well is showing production performance with a steady decline trend.

### 2.3.2 Oil Production Forecasting

RISC has prepared East Chalkley oil production forecasts for three development scenarios:

- Development Scenario-1: developed plus undeveloped reserves (2P and 3P reserves cases) adjacent to the existing Pine Pasture wells;
- Development Scenario-2: undeveloped 2C contingent resources; and
- Development Scenario-3: undeveloped 3C contingent resources.

### 2.3.2.1 Developed plus Undeveloped Reserves (Development Scenario-1)

The proposed plan includes two updip production wells and a water injection well within the gas cap area.

Both 2P and 3P production forecasts include two components:

1. Developed reserves based on Pine Pasture-1 and 2 performance; and
2. Undeveloped reserves based on the proposed drilling of Pine Pasture-3 and 4.

Based on the decline analysis, the technical ultimate recovery (without economic cut off) for Pine Pasture-1 is estimated between 45 Mstb (2P) and 60 Mstb (3P) (Figure 2-6 and Figure 2-7).

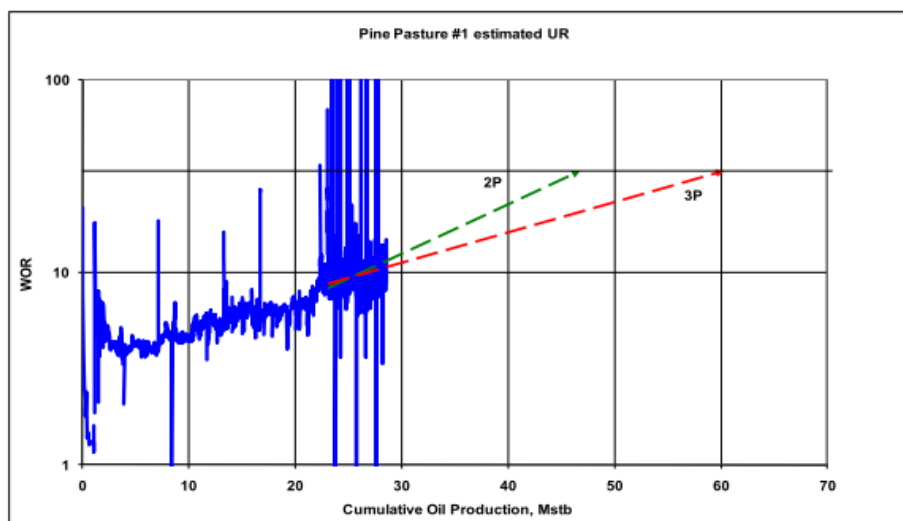


Figure 2-6 Pine Pasture-1 water-oil ratio extrapolation

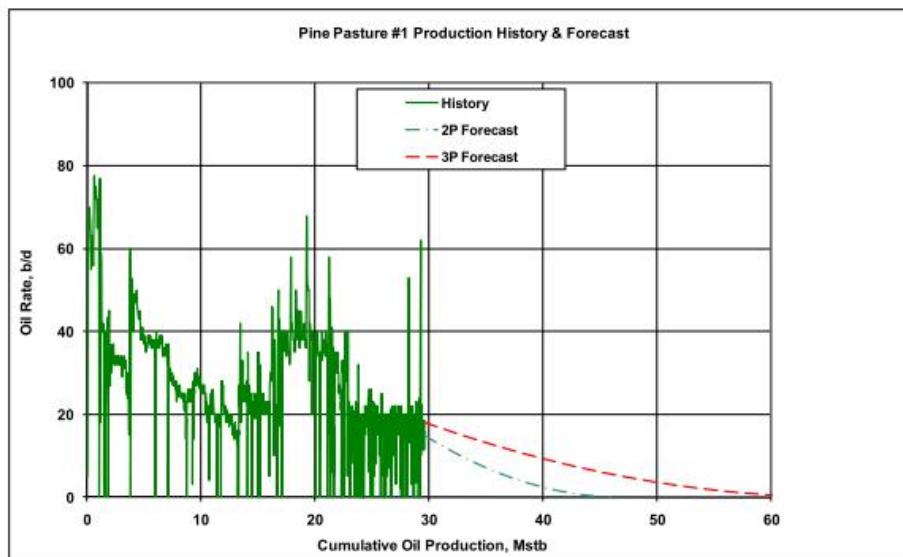


Figure 2-7 Pine Pasture-1 decline forecast

The watercut at Pine Pasture-2 has stabilised close to 90%. The technical ultimate recovery for the Pine Pasture-2 well is estimated at 225 Mstb (2P) and 325 Mstb (3P), Figure 2-8.

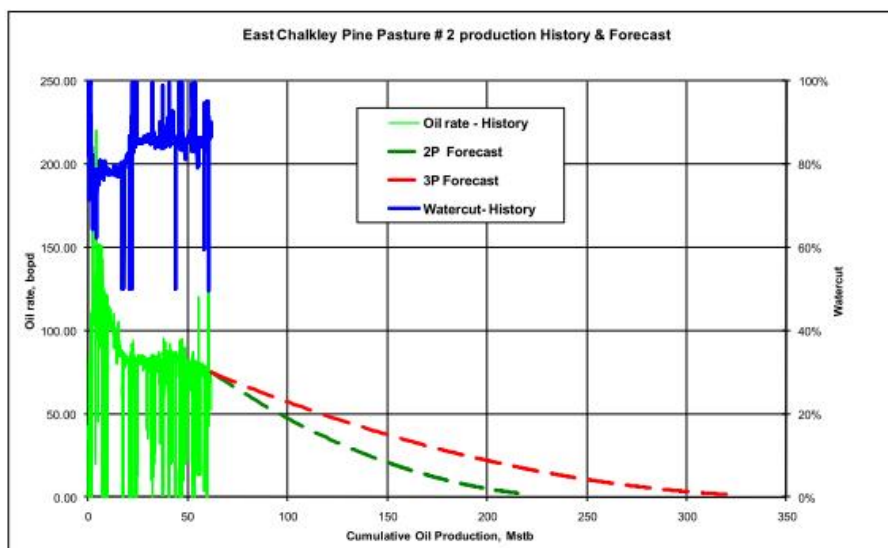


Figure 2-8 Pine Pasture-2 decline forecast

Production forecasts for the planned two-well drilling program are based on Pine Pasture-2 performance analogy but accounting for the fact that the wells will be drilled in updip locations. The two-well average ultimate recovery per well is estimated between 250 Mstb (2P) and 450 Mstb (3P) with initial rates between 200 bopd (most likely) and 300 bopd (high) (Figure 2-9). The estimation of higher rates and reserves are based on expectation that lower water saturations would be encountered at updip locations.

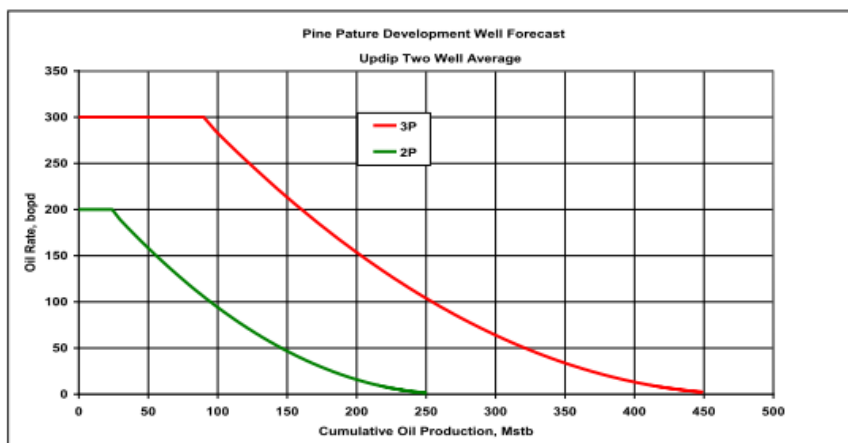


Figure 2-9 Pine Pasture -3 and -4 average forecast range

The combined developed and undeveloped forecast is presented in Figure 2-10, Figure 2-11 and Figure 2-12

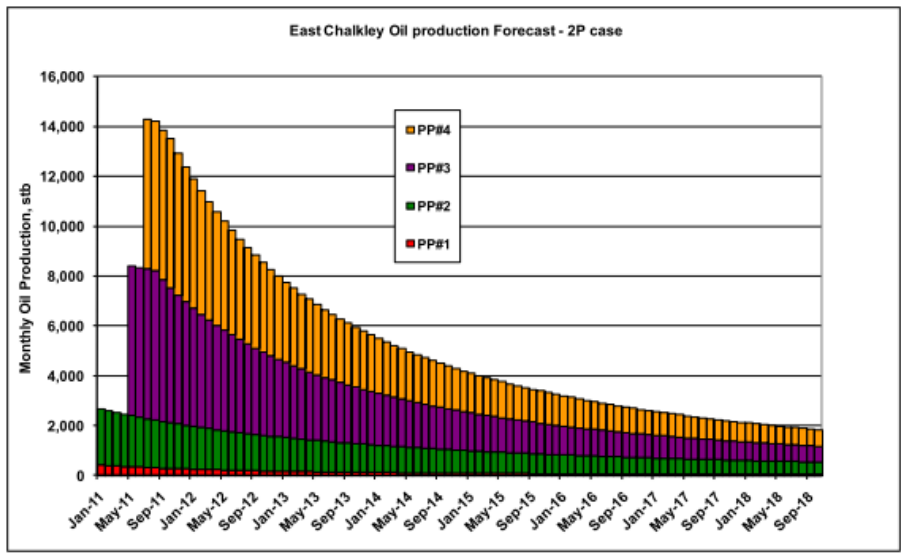


Figure 2-10 East Chalkley production forecast – 2P case

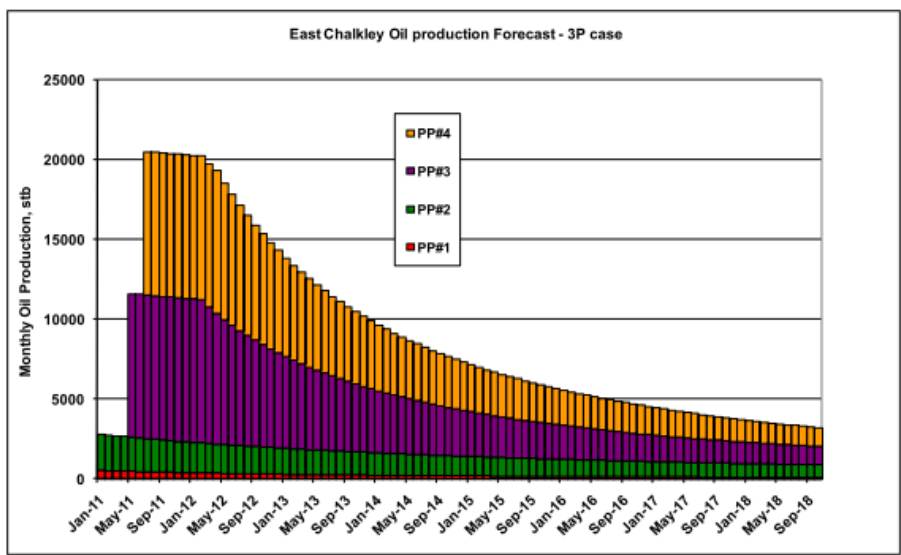
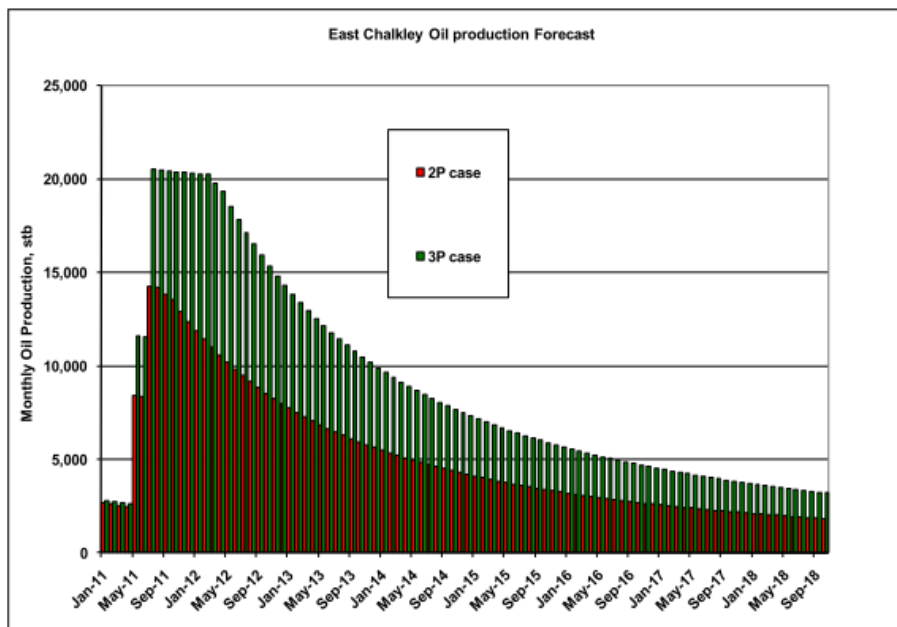


Figure 2-11 East Chalkley production forecast – 3P case



**Figure 2-12 Comparison of 2P and 3P production forecasts**

Based on economic modelling (see discussion in the Economics section) 2P and 3P reserves at 1<sup>st</sup> January 2011 for the East Chalkley Field are estimated at 511 Mstb and 965 Mstb respectively (100% interest).

The reserves volumes are summarised below.

		East Chalkley Field			
		Estimated Technical Ultimate Recovery		Reserves (1 Jan 2011)*	
	Cumulative Production (31 Dec 2010)	2P or 2C	3P or 3C	2P	3P
Well	Mstb	Mstb	Mstb	Mstb	Mstb
Pine Pasture-1	30.0	45	60		
Pine Pasture-2	62.0	225	325		
Pine Pasture-3	0.0	250	450		
Pine Pasture-4	0.0	250	450		
<b>Total</b>	<b>92.0</b>	<b>770</b>	<b>1285</b>	<b>511</b>	<b>965</b>
* Based on economic cut off					

**Table 2-1 East Chalkley Developed and Undeveloped reserves summary**

### 2.3.2.2 Contingent Resources

Two development scenarios have been considered addressing the balance of the 2C and 3C technically recoverable remaining resources that are not categorised as reserves (Table 2-2). Horizontal well development is assumed both for both cases. Based on typical worldwide performance, it is assumed that on average a horizontal well would have twice the rate and recovery compared to a vertical well. In both development scenarios well failures (dry holes) are included.

Figure 2-13 shows a conceptual forecast for the 2C and 3C cases based on the Development Scenario-2 and 3 discussed above. The development scenarios and associated production profiles are incremental over and above the developed plus undeveloped reserves forecasts. The following volumes are prior to application of an economic cut-off.

East Chalkley		
	2P or 2C	3P or 3C
Estimated Technical Ultimate Recovery, Mstb	1700 (P50)	4000 (P10)
Cum production, Mstb	92	92
Reserves at 1 Jan 2011, Mstb	511 (2P)	965 (3P)
Remaining Resources, Mstb (Jan 1, 2011)	1097 (2C)	2943 (3C)

**Table 2-2 East Chalkley Contingent Resources summary**

Development Scenario-2 addresses the 2C remaining technically recoverable resources of 1097 Mstb while Development Scenario-3 relates to 3C remaining resources of 2943 Mstb (Table 2-3 and Table 2-4).

Development scenario-2: 2C case		
Remaining Resource, Mstb	1097	Incremental
Oil Recovery, Mstb	500	Well average
Well Initial rate, bopd	300	Well average
Prod Wells	2	Horizontal
Dry hole	1	Horizontal
Injector	1	Horizontal
Total Wells drilled	4	Additional

**Table 2-3 Development assumptions for the 2C resources forecasting**

Development scenario - 3: 3C case		
Remaining Resource, Mstb	2943	
Oil Recovery, Mstb	500	Well average
Well Initial rate, bopd	300	Well average
Prod Wells	6	Horizontal
dry holes	2	Horizontal
Injectors	2	Horizontal
Incremental Wells drilled	10	Additional

Table 2-4 Development assumptions for 3C resources forecasting

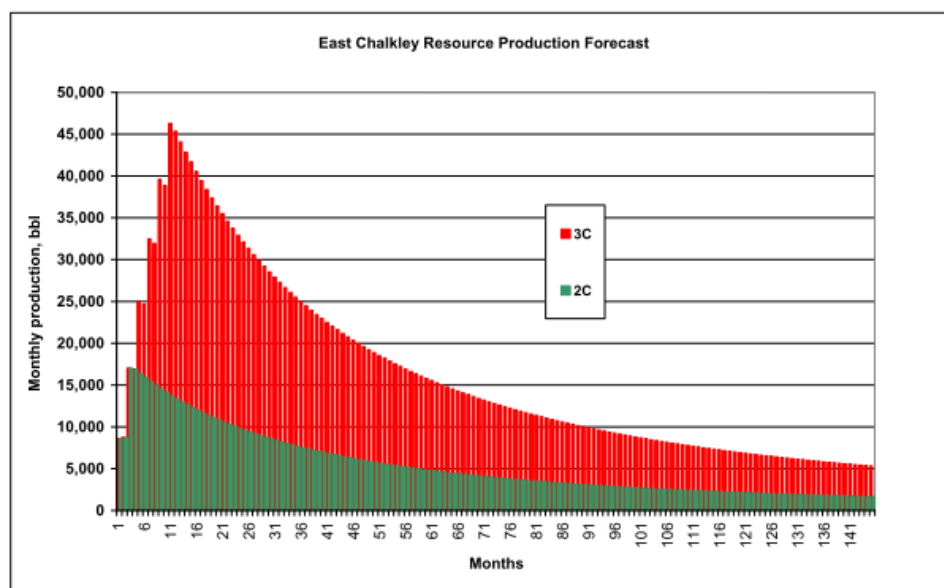


Figure 2-13 Comparison of 2C and 3C production forecasting

## 2.4 Production Plan and Cost Forecasts

### 2.4.1 Development Scenario-1: 2P & 3P Reserves

This proposed plan includes two new production wells in an updip location adjacent to Pine Pastures -2 and a water injector well. This is in addition to the two existing producing wells (Pine Pasture-1 and 2). Wells are expected to be drilled, completed and connected for US\$2.5 million. RISC has been informed that a salt water disposal well has now been drilled. As a result, water disposal costs have now been reduced to US\$0.35 per barrel. The economic model incorporates estimated operating expenditures of US\$20,000 per well per month for the existing producers and US\$15,000 per well per month for the planned wells (Development Scenario-1). The resulting production and cost forecasts are presented in the tables below (note: these tables are inclusive of the production and costs relating to the existing two producing wells). All figures are presented in US\$ real terms (2011) on a 100% project basis.

Scenario:	East Chalkley 2P (2 + 2 Producers)			Scenario:	East Chalkley 3P (2 + 2 Producers)		
	Production	Costs			Production	Costs	
	Oil	Capex	Opex		Oil	Capex	Opex
	MBBL/yr	US\$MM	US\$MM		MBBL/yr	US\$MM	US\$MM
2011	108.2	7.50	0.61	2011	156.5	7.50	0.62
2012	117.2		0.94	2012	210.1		0.97
2013	79.3		0.93	2013	140.5		0.95
2014	57.6		0.92	2014	100.8		0.94
2015	43.8		0.92	2015	76.3		0.93
2016	34.6		0.91	2016	60.1		0.92
2017	28.0		0.91	2017	48.8		0.92
2018	23.2		0.91	2018	40.4		0.91
2019	19.5		0.91	2019	34.2		0.91
				2020	29.3		0.91
				2021	25.4		0.91
				2022	22.3		0.91
				2023	19.7		0.91

Table 2-5 Development Scenario-1 Production and Cost Input Forecast

### 2.4.2 Development Scenario-2: Remaining 2C resources

This scenario is incremental to the development Scenario-1 and involves an additional two producing wells, one dry well, and one water injector. The wells are all horizontal and address the P50 estimate of remaining technically recoverable oil (Table 2-2). Horizontal wells are expected to cost between 150%-170% of vertical wells. RISC has used 160% for this evaluation. The economic model incorporates operating expenditures of US\$12,500 per well per month for the contingent wells (Development Scenario-2 and 3). The resulting forecasts are presented in the table below. All figures are presented in US\$ Real terms (2011) on a 100% project basis.

### 2.4.3 Development Scenario-3: Remaining 3C resources

This scenario is incremental to Development Scenario-1 and involves an additional six producing wells, two dry wells, and two water injectors. The wells are all horizontal and address the 3C estimate of remaining technically recoverable oil (Table 2-2).

Production and cost projections for Development Scenarios 2 and 3 are presented below.

Scenario-2	2C case			Scenario-3	3C case		
	Production Oil MBBL/yr	Costs			Production Oil MBBL/yr	Costs	
		Capex US\$MM	Opex US\$MM			Capex US\$MM	Opex US\$MM
2011		6.00		2011	6.00		
2012	169.5	8.00	0.43	2012	335.2	30.00	0.37
2013	135.5		0.50	2013	457.3		1.36
2014	101.9		0.49	2014	339.9		1.32
2015	79.4		0.48	2015	262.6		1.29
2016	63.6		0.47	2016	209.0		1.27
2017	52.1		0.47	2017	170.3		1.26
2018	43.4		0.47	2018	141.4		1.25
2019	36.8		0.46	2019	119.3		1.24
2020	31.5		0.46	2020	102.1		1.24
2021	27.3		0.46	2021	88.3		1.23
2022	23.9		0.46	2022	77.1		1.23
2023	21.1		0.46	2023	67.9		1.22
2024	18.8		0.46	2024	60.3		1.22
2025	16.8		0.46	2025	53.9		1.22
2026	15.1		0.46	2026	48.4		1.22
2027	13.7		0.45	2027	43.8		1.22
2028	12.5		0.45	2028	39.8		1.21
2029	11.4		0.45	2029	36.3		1.21
2030	10.4		0.45	2030	33.2		1.21
2031	9.6		0.45	2031	30.6		1.21
				2032	28.2		1.21
				2033	26.1		1.21

Table 2-6 Development Scenarios-2 and 3 Production and Cost Input Forecasting

### 3 ECONOMIC EVALUATION

#### 3.1 Inputs to Economic Evaluation

RISC has conducted economic analysis on the East Chalkley field using a standard discounted cashflow approach under the prevailing fiscal terms and conditions as previously provided to RISC by Target Energy. The modelling assumptions are described below.

##### 3.1.1 Pricing

RISC has used the following real terms oil price forecast.

2011	2012	2013	2014	2015 on
81.6	83.2	84.2	85.3	86.2

Table 3-1 Oil Price Forecast (US\$/bbl)

##### 3.1.2 Inflation

RISC has assumed a constant 2.5% cost and price inflation factor in determining net present values.

##### 3.1.3 Discount Rate

A 10% nominal mid-year discount rate has been used as the rate for the discounted cashflow NPVs.

##### 3.1.4 Royalties

The Royalties payable by Target Energy in relation to the East Chalkley field are understood to be as follows:

Landholder Royalty	30.0%
Field Broker Royalty	0.5%
Geophys Pursuit	0.5%
Horizon Management	0.5%*
<b>Total East Chalkley Royalties</b>	<b>31.5%</b>

\*after payout

Table 3-2 Schedule of Royalties Payable by Target Energy for East Chalkley

##### 3.1.5 Taxes

The Following taxes are payable in relation to the East Chalkley field:

- State Severance Tax - based upon 12.5% of oil revenue
- Corporate Tax - based upon 40% of profits

#### 3.2 Evaluation Results

##### 3.2.1 Reserves

The following tables show the Net Present Values, at 10% nominal discount, for the East Chalkley field reserves cases. The results are presented on a pre-(corporate) tax and post-tax basis, and are all shown as Target Energy's working interest (35%) in US\$ millions.

Pre-Tax Results	Proved+Probable (2P)		Proved+Probable+Possible (3P)	
	NPV10 (US\$ million)	Reserves (Mstb)	NPV10 (US\$ million)	Reserves (Mstb)
East Chalkley	2.4	179	7.3	338

**Table 3-3 Results of Economic Evaluation (Pre Corporate Tax, Target Energy Share)**

Post-Tax Results	Proved+Probable (2P)		Proved+Probable+Possible (3P)	
	NPV10 (US\$ million)	Reserves (Mstb)	NPV10 (US\$ million)	Reserves (Mstb)
East Chalkley	1.4	179	4.4	338

**Table 3-4 Results of Economic Evaluation (Post Corporate Tax, Target Energy Share)**

### 3.2.2 Contingent Resources

The following tables show the Net Present Values, at 10% nominal discount, for the East Chalkley field combined reserves and contingent resources cases. The results are presented on a pre-(corporate) tax and post-tax basis, and are all shown as Target Energy’s working interest (35%) in US\$ millions.

Pre Tax Results	2P+2C		3P + 3C	
	NPV10 (US\$ million)	Resources (Mstb)	NPV10 (US\$ million)	Resources (Mstb)
East Chalkley	6.4	492	21.9	1307

**Table 3-5 Results of Economic Evaluation (Pre Corporate Tax, Target Energy Share)**

Post Tax Results	2P+2C		3P + 3C	
	NPV10 (US\$ million)	Resources (Mstb)	NPV10 (US\$ million)	Resources (Mstb)
East Chalkley	3.8	492	13.0	1307

**Table 3-6 Results of Economic Evaluation (Post Corporate Tax, Target Energy Share)**

These NPVs have not been adjusted for technical risks associated with different resource categories and other factors that a buyer or seller may consider in any transaction concerning these assets and therefore should not be taken to be representative of the fair market value.

### 3.2.3 Valuation of East Chalkley

In assessing the value of the East Chalkley petroleum assets, RISC has considered 2 approaches:-

3. A recent transaction on the asset which provides a benchmark valuation
4. Discounted cashflow on Proven and Probable (2P) reserves and Best Estimate (2C) contingent resources applying reasonable relevant discounts to reflect chance of development and a market value.

#### Recent Transaction

In October 2009, in an announcement to the ASX, Target Energy reported that it had completed the purchase of an additional 10% interest in East Chalkley to take its working interest to 35% with the cost of the acquisition reported at US\$0.5 million. This implies a value of Target Energy's full 35% working interest of \$US1.75 million at that time.

In addition this transaction indicates a unit value of US\$9/bbl, which using the 2P reserves in this report indicates a value of US\$1.6 million.

#### Discounted Cashflow Method

RISC has applied certain discounts to NPV10 values to estimate a market value. These discounts combine two elements, namely a chance of development successfully occurring and a "market factor discount" to both the value of the reserves and of the contingent resources.

We apply a development chance and a market factor value of 1 for the developed reserves. The market value of the developed reserves has been based on the NPV10% of the 2P reserves. For the undeveloped reserves contingent resources we apply a development chance factor and market value factor as detailed below. The development chance factor for the contingent resources is relatively low as these resources are related to a conceptual development involving the successful drilling of 2 horizontal wells. Target Energy does not have a current plan for this. In our experience it is standard practice in the industry to apply a market factor discount for values associated with contingent projects in the range of 30 to 60%. Given that East Chalkley is currently a producing field, we apply a factor at the upper end of the range.

East Chalkley Value (Target Energy share)	NPV10% (US\$m)	Development Chance Factor	Market Value Factor	Market Value (US\$m)
2P Developed	0.4	1	1	0.4
2P Undeveloped	1.0	0.7	1	0.7
2C	2.3	0.25	0.6	0.3

Comparing the above result with the transactional data provides a range of values from US\$1.4 to 1.8 million. Assuming that in addition to the development and market factors applied above, a 10% probability of 3P and 3C resources was applied, RISC considers that a further upside of approximately US\$0.4 million could be realised.

The values relate to the remaining petroleum resources only and do not take account of petroleum inventories or corporate liabilities/assets.

## 4 QUALIFICATIONS AND INDEPENDENCE

### 4.1 Qualifications

RISC has extensive experience in providing independent technical specialist's advice to the oil and gas industry. All of the RISC staff engaged in this assignment are professionally qualified engineers, geoscientists or analysts, each with many years of relevant experience and most have in excess of 20 years. The work has been prepared under the supervision of Joe Salomon, a professional geoscientist with over 25 years industry experience.

RISC was founded in 1994 to provide independent advice to companies associated with the oil and gas industry. Today the company has approximately 40 highly experienced professional staff at offices in Perth and Brisbane, Australia and London, UK. We have completed over 1000 assignments in 55 countries for nearly 400 clients. Our services cover the entire range of the oil and gas business lifecycle and include:

- Oil and gas asset valuations, expert advice to banks for debt or equity finance
- Exploration / portfolio management
- Field development studies and operations planning
- Reserves assessment and certification, peer reviews
- Gas market advice
- Independent Expert / Expert Witness
- Strategy and corporate planning

### 4.2 Independence

This report does not give and must not be interpreted as giving, an opinion, recommendation or advice on a financial product within the meaning of section 766B of the Corporations Act 2001 or section 12BAB of the Australian Securities and Investments Commission Act 2001.

RISC is not operating under an Australian financial services licence in providing this report.

In accordance with regulation 7.6.01(1)(u) of the Corporations Regulation 2001. RISC makes the following disclosures:

- RISC is independent with respect to Target Energy and BDO Corporate and confirms that there is no conflict of interest with any party involved in the assignment.
- Under the terms of engagement between RISC and BDO Corporate for the provision of this report RISC will receive a fee, based on time expended and our current standard terms and conditions, payable by Target Energy. The payment of this fee is not contingent on the outcome of any transaction between Target Energy and other party.
- The Directors and staff of RISC may have from time to time owned shares in Target. No interests are currently directly held by those directors and staff involved in the preparation of this report.

## 5 LIST OF TERMS

The following lists, along with a brief definition, abbreviated terms that are commonly used in the oil and gas industry and which may be used in this report.

Abbreviation	Definition
1P	Equivalent to Proved reserves or Proved in-place quantities, depending on the context.
1Q	1 <sup>st</sup> quarter
2P	The sum of Proved and Probable reserves or in-place quantities, depending on the context.
2Q	2 <sup>nd</sup> quarter
2D	Two dimensional
3D	Three dimensional
4D	Four dimensional – time lapsed 3D in relation to seismic
3P	The sum of Proved, Probable and Possible Reserves or in-place quantities, depending on the context.
3Q	3 <sup>rd</sup> quarter
4Q	4 <sup>th</sup> quarter
AEO	US Energy Information Administration’s Annual Energy Outlook
AFE	Authority for Expenditure
Boe	US barrels of oil equivalent
Bbl	US barrel
bbl/d	US barrels per day
Bcf	Billion (10 <sup>9</sup> ) cubic feet
Bcm	Billion (10 <sup>9</sup> ) cubic meters
BFPD	Barrels of fluid per day
BOPD	Barrels of oil per day
BTU	British Thermal Units

Abbreviation	Definition
BWPD	Barrels of water per day
C	Celsius
Capex	Capital expenditure
CAPM	Capital asset pricing model
CGR	Condensate Gas Ratio – usually expressed as bbl/MMscf
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable resources as defined in the SPE-PRMS.
CO2	Carbon dioxide
Cp	Centipoise (measure of viscosity)
CPI	Consumer Price Index
Deg	Degrees
DHI	Direct hydrocarbon indicator
Discount Rate	The interest rate used to discount future cash flows into a dollars of a reference date
DST	Drill stem test
E&P	Exploration and Production
Eg	Gas expansion factor. Gas volume at standard (surface) conditions / gas volume at reservoir conditions (pressure & temperature)
EIA	US Energy Information Administration
EMV	Expected Monetary Value
EOR	Enhanced Oil Recovery
ESP	Electric submersible pump
EUR	Economic ultimate recovery

Abbreviation	Definition
Expectation	The mean of a probability distribution
F	Degrees Fahrenheit
FDP	Field Development Plan
FEED	Front end engineering design
FID	Final investment decision
Fm	Formation
FPSO	Floating offshore production and storage unit
FWL	Free water level
FVF	Formation volume factor
GIIP	Gas Initially In Place
GJ	Giga (10 <sup>9</sup> ) joules
GOC	Gas-oil contact
GOR	Gas oil ratio
GRV	Gross rock volume
GSA	Gas sales agreement
GTL	Gas To Liquid(s)
GWC	Gas water contact
H <sub>2</sub> S	Hydrogen sulphide
HHV	Higher heating value
ID	Internal diameter
IRR	Internal Rate of Return is the discount rate that results in the NPV being equal to zero.
JV(P)	Joint Venture (Partners)
Kh	Horizontal permeability

Abbreviation	Definition
km <sup>2</sup>	Square kilometres
Krw	Relative permeability to water
Kv	Vertical permeability
kPa	Kilo (thousand) pascal (measurement of pressure)
Mstb/d	Thousand US barrels per day
LIBOR	London inter-bank offered rate
LNG	Liquefied Natural Gas
LTBR	Long-Term Bond Rate
M	Metres
MDT	Modular dynamic formation tester
mD	Millidarcies (permeability)
MJ	Mega (10 <sup>6</sup> ) Joules
MMbbl	Million US barrels
MMscf(d)	Million standard cubic feet (per day)
MMstb	Million US stock tank barrels
MOD	Money of the Day (nominal dollars) as opposed to money in real terms
MOU	Memorandum of Understanding
Mscf	Thousands standard cubic feet
Mstb	Thousand US stock tank barrels
MPa	Mega (10 <sup>6</sup> ) pascal (measurement of pressure)
Mss	Metres subsea
MSV	Mean Success Volume
mTVDss	Metres true vertical depth subsea

Abbreviation	Definition
MW	Megawatt
NPV	Net Present Value (of a series of cash flows)
NTG	Net to Gross (ratio)
ODT	Oil down to
OGIP	Original Gas In Place
OOIP	Original Oil in Place
Opex	Operating expenditure
OWC	Oil-water contact
P90, P50, P10	90%, 50% & 10% probabilities respectively that the stated quantities will be equalled or exceeded. The P90, P50 and P10 quantities correspond to the Proved (1P), Proved + Probable (2P) and Proved + Probable + Possible (3P) confidence levels respectively.
PBU	Pressure build-up
PHIT	Total porosity
PJ	Peta ( $10^{15}$ ) Joules
POS	Probability of Success
Possible Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

Abbreviation	Definition
Probable Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Probable Reserves are those additional Reserves that are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations as defined in the SPE-PRMS.
Proved Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. Often referred to as 1P, also as "Proven".
PSC	Production Sharing Contract
PSDM	Pre-stack depth migration
PSTM	Pre-stack time migration
Psia	Pounds per square inch pressure absolute
p.u.	Porosity unit e.g. porosity of 20% +/- 2 p.u. equals a porosity range of 18% to 22%
PVT	Pressure, volume & temperature
QA	Quality assurance
QC	Quality control
rb/stb	Reservoir barrels per stock tank barrel under standard conditions

Abbreviation	Definition
RFT	Repeat Formation Test
Real Terms (RT)	Real Terms (in the reference date dollars) as opposed to Nominal Terms of Money of the Day
Reserves	RESERVES are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.
RISC	Resource Investment Strategy Consultants (t/a RISC Pty Ltd Authors of this report)
RT	Measured from Rotary Table or Real Terms, depending on context
SC	Service Contract
Scf	Standard cubic feet (measured at 60 degrees F and 14.7 psia)
Sg	Gas saturation
Sgr	Residual gas saturation
SRD	Seismic reference datum lake level
SPE	Society of Petroleum Engineers
SPE-PRMS	Petroleum Resources Management System, approved by the Board of the SPE March 2007 and endorsed by the Boards of Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council and Society of Petroleum Evaluation Engineers.
s.u.	Fluid saturation unit. e.g. saturation of 80% +/- 10 s.u. equals a saturation range of 70% to 90%
Ss	Subsea
Stb	Stock tank barrels
STEO	Short term energy outlook

Abbreviation	Definition
STOIIP	Stock Tank Oil Initially In Place
Sw	Water saturation
TCM	Technical committee meeting
Tcf	Trillion (10 <sup>12</sup> ) cubic feet
TJ	Tera (10 <sup>12</sup> ) Joules
TLP	Tension Leg Platform
TRSSV	Tubing retrievable subsurface safety valve
TVD	True vertical depth
US\$	United States dollar
US\$ million	Million United States dollars
WACC	Weighted average cost of capital
WHFP	Well Head Flowing Pressure
Working interest	A company's equity interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms.
WPC	World Petroleum Council
WTI	West Texas Intermediate Crude Oil

For personal use only



## RISC Pty Ltd

Resource Investment Strategy Consultants

### AUSTRALIA HEAD OFFICE

Level 3

1138 Hay Street

WEST PERTH WA 6005

Tel: +61 (0)8 9420 6660

Fax: +61 (0)8 9420 6690

E-mail: [riscsupport@riscpl.com](mailto:riscsupport@riscpl.com)

### AUSTRALIA BRISBANE OFFICE

Level 2

147 Coronation Drive

MILTON QLD 4064

Tel: +61 (0)7 3025 3369

Fax: +61 (0)7 3025 3300

E-mail: [riscsupport@riscpl.com](mailto:riscsupport@riscpl.com)

### UNITED KINGDOM OFFICE

53 Chandos Place

Covent Garden

LONDON WC2N 4HS

Tel: +44 (0)20 7484 8740

Fax: +44 (0)20 7812 6677

E-mail: [riscuk@riscpl.com](mailto:riscuk@riscpl.com)

[www.riscpl.com](http://www.riscpl.com)

AUSTRALIAN HERITAGE

INTERNATIONAL EXPERIENCE

GLOBAL VISION