AUSTRALIAN

RESEARCH

BLUE BOOK SERIES

Junior Resources

March 2008 Quarterly Review

Storm approaching – thank goodness for China

EXTRACT

Aegis Measured by Performance

Contents

This is an extract from the March 2008 Junior Resources Quarterly Review.

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Target Energy Limited (TEX)

Sector	Industry Group
Energy	Energy

Company Overview

TEX listed in November 2006 with a plan to grow into a successful explorer/producer of oil and gas. The initial focus is the US, with experienced domestic JV partners. Exploration was successful, with three out of four wells in production. Assets are in Louisiana and Texas, where there is existing infrastructure and 3D seismic available for purchase and re-processing. As cash flow builds, TEX will seek new opportunities in other regions of the US. Management is achieving what it said it would.

Strategy

TEX partners with established and reputable operators who have demonstrated successful track records in their areas of operations. The company looks for well-defined prospects and usually takes a working interest in the range of 10% to 25%. TEX's drilling portfolio is balanced, with prospect types varying from shallow low-risk features to high-risk/high-reward plays. The company will continue to pursue high-quality drilling opportunities to boost production and cash flow.

Aegis Comments as at May 2008.

Outlook: TEX has a 10%-25% working interest in wells in which it participates. These are significant interests for a junior explorer, balancing risk with reward. TEX is now positioning itself to move into production phase, with success at St Martin Parish, Louisiana. SML A2 well has been completed and is ready for production after flow testing gas rates up to 2.1 mmcfgd. Beyt #1 has commenced production. The well was put online at an initial rate of 1 million cubic feet of gas per day.

Catalysts: Last quarter TEX raised $2.55 miillion from a share placement to help continue exploration and production operations. The company is now producing from 5 of the 7 wells drilled to date. Further drillings are scheduled with Catapult 3 prospect in Q2 2008. It has been thoroughly mapped on 3D seismic and adjacent to two wells tests with combined rates of 40mcf. It is a high-risk/high-reward play that TEX believes has genuine “company-making” potential.

Risks: US gas prices are volatile but are higher than those in Australia. Existing infrastructure is excellent in Texas and Louisiana. Producing wells can be connected to a pipeline and generate cash within a month. Companies exploring old fields for remnant accumulations of gas and/or oil have to work hard, and the gestation period for a positive operating cash flow after capex is uncertain. An element of share dilution is unavoidable. Risk and reward rises when wells include high-impact plays.

Key investment information

Price:	**$0.17**
Price as at:	12-Jun-08
Market Cap ($M):	9.9
Equiv. Shares (M):	78.20
% All Ords:	0.00
12Mth Range ($):	0.11 - 0.34
Shares Traded ($M pa):	15.2
Listed since:	27 Nov 2006
Index:	n/a

Share price performance

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Earnings Summary

Yr to Jun	NPAT Rep $M	NPAT[1] Adj $M	EPS[1] c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2004A	**0.0**	**0.0**	0.0	n/a	**0.0**	0.0	0.0	0.0	**0.0**	0	n/a
2005A	**0.0**	**0.0**	0.0	n/a	**0.0**	0.0	0.0	0.0	**0.0**	0	n/a
2006A	**0.0**	**0.0**	0.0	n/a	**0.0**	0.0	0.0	0.0	**0.0**	0	n/a
2007A	**(1.2)**	**(1.2)**	(3.2)	n/a	**(4.7)**	(0.3)	(0.1)	0.0	**0.0**	0	(58.7)

[1] NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

Financial Stability

Balance Sheet (Y/E Jun)	06A	07A
Net debt (cash) ($M)	0.0	(5.9)
Total assets ($M)	0.0	8.5
Net debt/equity (%)	0.0	(69.3)
Net interest cover (x)	n/a	n/a
NTA per share ($)	0.00	0.09
Current ratio (x)	0.0	66.0

As at 30-Jun-07	
Net debt (cash) ($M)	(6.0)
Net debt (cash) / shr ($)	(0.08)
Net debt (cash) / MktCap (%)	(60.8)

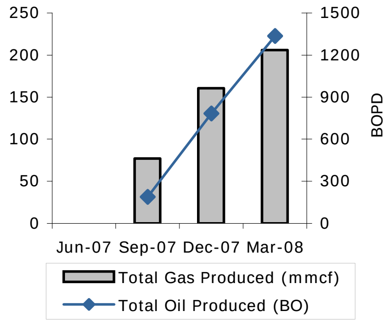
Substantial Shareholders

Petroe Exploration Services	7.4%
Hosier Investments	5.9%

Board

L Roe (Director)
P Lloyd (Director)
M Martin (Director)
D M Murcia (Director)

Production Chart



Source: TEX

Differentiating Factors

Within one year from listing on the ASX, TEX had four discoveries in its first five wells. The first three discoveries were in production and generating cash flow for the company within 10 months from listing. TEX has an active drilling calendar and will participate in a further five wells in 3Q07 and 1Q08. TEX has experienced management, a successful track record and will continue to grow its US portfolio via an active and diverse drilling program.

Achievements

TEX completed an IPO 2006 and the first gas discovery was only 3 months later when Throughbred-1 tested 0.45mmcfd. First production was 6 months after listing, and 3 months from when the first four wells were cased and suspended as producers. Snapper A-1 is producing oil and gas and Garwood gas. TEX is delivering on its objective to build a revenue stream from a balanced portfolio of exploration and producing assets. The challenge now is to generate operating cash flow to fund high-impact wells.

Recent Events

6 May 2008 – Production Commences at Beyt #1: Production has commenced from Beyt #1 well, Louisiana, USA. The well was put on line on 2 May 2008 at an initial rate of 1 million cubic feet of gas per day, with a steady flow of condensate. It was drilled in January 2008, where Beyt #1 well intersected productive Marg Vag sands, which were successfully flow tested in March this year. The company is now producing from 5 of the 7 wells drilled to date. Target has a 15% working interest in Beyt #1. Further drilling is scheduled later this month.

1 May 2008 – Interest Acquired in East Chalkey Project: An agreement has been reached with Centurion Exploration to acquire a 25% interest in the East Chalkey Project. It is an oil appraisal and development project in Louisiana, targeting up to 2.4M barrels of potential oil. The East Chalkey project is considered a low-risk oil field program. The structure is mapped on 3D seismic and is already producing oil from a single well. Because oil is confirmed the exploration and financial risks are significantly reduced. Drilling will commence in May.

29 April 2008 – Quarterly Report: The SML (Snapper) A2 commenced production in February and produced 409 barrels of oil. The company has a 25% working interest in the well. Beyt #1 well was completed for production after testing gas at rates up to 1.1mmcfgd, with up to 104 barrels of condensate per day from Marg Vag sand. The well is expected to be online in May. TEX has a 25% working interest in the well. Riviana Foods # 1 has been plugged and abandoned due to wet sands and not having trapped commercial hydrocarbons.

Capital Structure

TEX has 65.8M listed fully paid ordinary shares on issue plus 12.4M unlisted shares. There are 36.6M listed options (25-cent, 26-11-09) and 6M unlisted options (20-cent expire 30-06-11).

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