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DAILY RESOURCES BULLETIN by Gavin Wendt

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Target Energy – ASX queries rising share price

We've covered **Target Energy (ASX: TEX, Share Price: $0.115, Market Cap: $34m)** on a couple of previous occasions over the past few months. What's been attractive is the prospectivity of the company's current petroleum exploration program in the US; the fact that the first well has been successful; and thirdly that the market has reacted positively to the results so far.

This is reflected in the share price chart below, which shows how significantly TEX has outperformed the ASX Energy Index (red line versus blue line). TEX's share price has more than doubled since July.

TEX's share price performance (particularly over the past week) has attracted the attention of the ASX, which has issued a share price query. The company has replied by reiterating all of the information that is currently in the market and which reinforces our positive view on the company.

TEX is a modestly-valued junior oil play that has encountered potential oil and gas pay zones in all primary and secondary target reservoirs within its first well in its current West Texas drilling program in the

USA, which is part of its Fairway Project. The acreage is large at 2,553 acres and Target holds a sizeable 60% working interest in the project. Other participants are Trilogy Operating (30%) and Avalon Oil (10%).

The Permian Basin boasts an outstanding oil discovery success rate, which has led to the region being targeted by many of the USA's leading petroleum companies. Located principally in western Texas, the Permian Basin is one of the most prolific oil-producing basins in North America.

The primary targets of the well are the Wolfberry interval, along with the deeper Fusselman Formation. The Wolfberry is the primary target and the most exciting, as it is considered to have the potential to be a company-maker for Target. There are up to 64 drilling locations within the Fairway project area, each with potentially recoverable reserves estimated at up to 180,000 barrels of oil equivalent.

The Wolfberry play, originally named because of the commingling of production from the Wolfcamp and Spraberry Formations, is a major low-permeability oil play in the Permian Basin. The Wolfcamp, stratigraphically below the Spraberry, is itself a significant producer in the Permian Basin. It is equally well known for its low permeability in most areas in the basin.

The largest accumulation of oil and gas reserves within the Permian Basin is found in the Spraberry trend, which covers large parts of six counties and has a total area of approximately 2,500 square miles. The Spraberry trend is ranked third in the United States by total proved reserves and seventh in terms of total production.

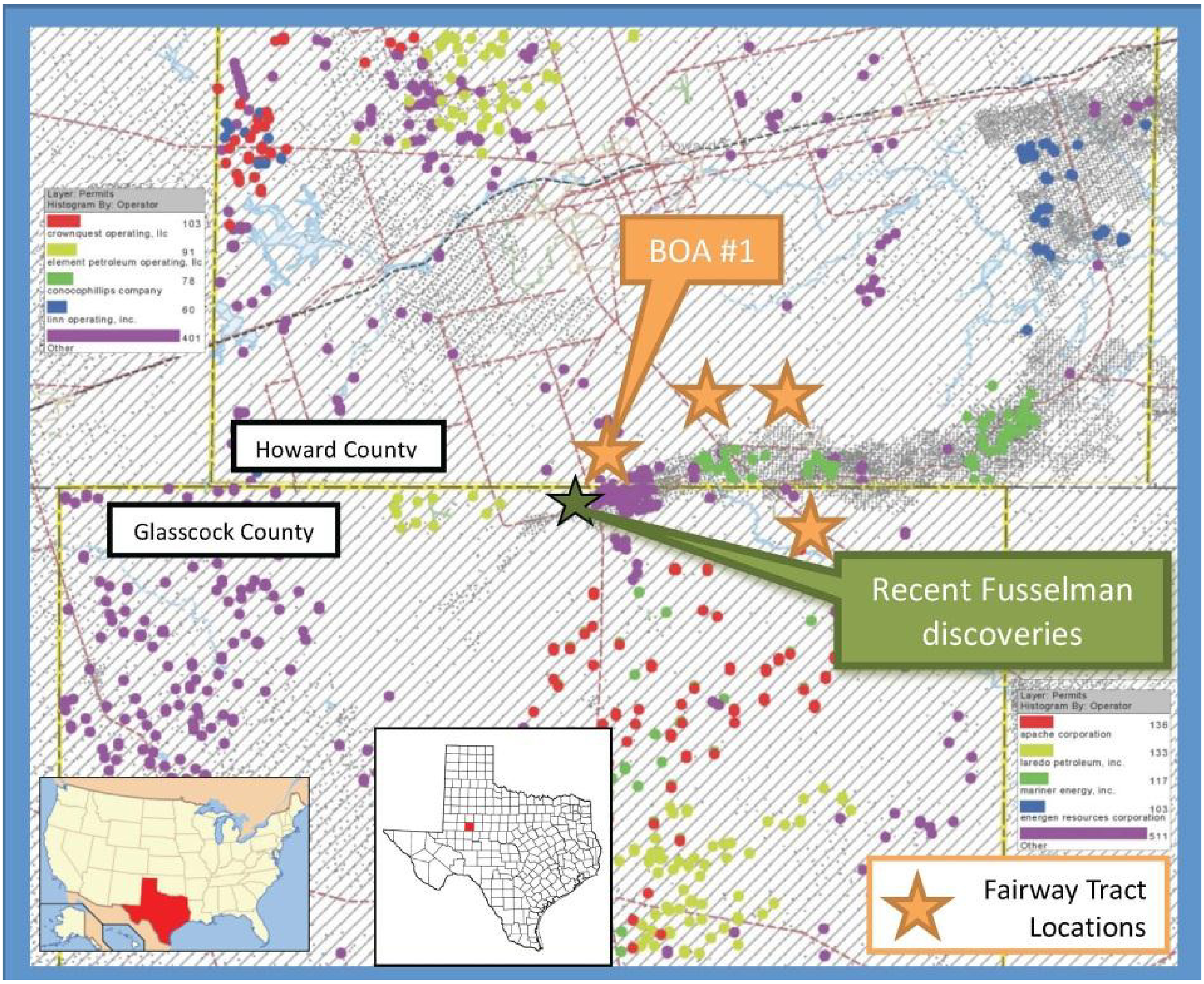
Advancements in completion methods have made it possible to combine production from the Spraberry and Wolfcamp zones in areas that were previously uneconomic on a standalone basis, achieving robust economic results. The play has continued to evolve to include additional zones below the Wolfcamp.

Several senior oil and gas producers, such as Concho Resources, St. Mary Land and Exploration, Pioneer Natural Resources, Oxy USA, ExL Petroleum, Mariner Energy, and Cambrian Management, are actively developing the Wolfberry. More than 2,000 wells have been drilled since the beginning of the play in late 2007.

The first well in TEX's program, known as BOA 12 #1, commenced drilling commenced in September and took about a month to reach its programmed total depth of ~3,170 metres. The well's location is important, as it's situated within the Permian Basin, one of the hottest oil exploration addresses in the US right now.

Encouragingly, the well has drilled through a 1,080-metre section of the Wolfberry zone that exhibited numerous shows whilst drilling. An initial review of the log data has confirmed the potential productivity of the Wolfberry zone.

Based on its pre-drill and testing information, Target believes a discovery could initially produce at rates of between about 100-150 BOPD.



Processing of the log data has been completed, along with fracture stimulation on all eleven separate zones within the Wolfberry Formation. Flow-testing is expected to begin in about a week's time – hence the excitement surrounding the company.

Logs have also confirmed that the well intersected potential oil pay over a 5-metre interval within the deeper Fusselman formation and at a depth of ~1,312 metres through the shallower San Andres formation (the San Andres is the main producing horizon in the adjacent Howard Glasscock field). The company is contemplating the drilling of a separate twin well to independently test the San Andres section.

Up to 64 wells can be drilled on the company's Fairway acreage on a typical 40-acre spacing. This figure could be boosted substantially in light of a recent decision by the Railroad Commission of Texas (the regulator of oil and gas activities in Texas) to halve the minimum drill spacing to 20 acres on the Spraberry Trend at Wolfberry. Up to 128 wells could be drilled within Fairway, potentially doubling the value of the asset for TEX. Some companies in the area are also investigating horizontal drilling and the merits of water flooding in the Wolfberry to further increase recovery rates.

Estimated Timing	Prospect	Location	Target Working Interest	Potential Recoverable Volumes
Underway	1st Buffalo Frac	South Texas	100%BPO 50% APO	
August 2011	Fairway #1	Glasscock Co, Tx	60%	180 – 220 mBO
Q3/Q4 2011	2nd Buffalo Frac	South Texas	100%BPO 50% APO	
Q4 2011	Shepard's Channel	La Fourche Parish, La	7%	120 Bcf
Q4 2011	Fairway #2 - #4	Howard/Glasscock Co	60%	180 – 220 mBO
Q3/Q4 2011	East Chalkley PP#3	Cameron Parish, La	35%	250 – 450 mmBO

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

TEX also holds various other projects in Texas and Louisiana that are at varying stages of development, with the company producing oil and gas on a modest scale. Target held $1.7m cash as at the end of the September Quarter. I've met the company's Chairman Christopher Rowe and MD Laurence Roe on many occasions and they are committed, experienced oil industry professionals.

Target Energy is a new petroleum company in terms of our coverage and we'll be monitoring flow-testing progress on its BOA 12 #1 well closely. Its modest market capitalization combined with low-cost but relatively high-impact wells mean Target offers the right balance of risk and reward for investors. This is a stock I'll look to introduce into our portfolio in the near future.

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