

Target Energy Limited

(ABN 73 119 160 360)

Half Year Report

31 December 2008



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DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year to 31 December 2008. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

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

Didier Murcia	<i>Chairman</i>
Laurence Roe	<i>Managing Director</i>
Michael Martin	<i>Non-Executive Director</i>
Paul Lloyd	<i>Non-Executive Director</i>

Review of Operations

During the reporting period production at Pine Pasture #2 (East Chalkley) continued at approximately 120 BOPD and production from Snapper wells averaged 2.4 mmcfgd plus 13 BOPD during the second quarter.

Production was interrupted by hurricanes Gustav and Ike at East Chalkley (25% working interest) and recommenced in late October 2008. Production has stabilized at around 120 BOPD with 440 BWPd. This level of production is optimal with the existing pumping equipment. The partners are presently discussing ongoing appraisal drilling as well as the drilling of a salt-water disposal well to expedite disposal of the produced water.

Target expects to drill the Snapper A-3 prospect, in which the consolidated entity will earn a 25% working interest, in the March quarter. The target to be tested has unrisks recoverable potential for up to 0.7 million barrels of oil and 4 billion cubic feet of gas.

The consolidated entity incurred a net loss after tax of \$764,600 during the half-year to 31 December 2008 (2007: \$449,942)

The principal activities of the consolidated entity during the half year were the production of and exploration for oil and gas in the USA. The directors have focused the consolidated entity's operation on the USA gulf states of Texas and Louisiana but will continue to review all oil and gas opportunities.

Events after the Balance Sheet Date

Subsequent to balance date, the Company withdrew from Participation Agreements covering the Catapult 3 and Parks North prospects due to lengthy ongoing delays and uncertainty over the commencement of drilling and the capacity of other project partners to secure requisite funding to drill these projects.

By formally withdrawing from the projects, existing investments in these prospects are to be returned to the Company and therefore an additional \$422,668 is now available for other projects.

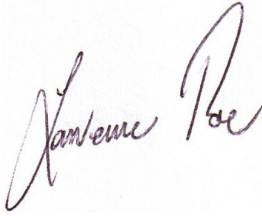
Other than this there has not arisen in the interval between the end of the half year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future periods.

Auditor's Independence Declaration

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

This Independence Declaration is attached to the Independent Auditor's Review Report and forms part of this directors' report for the half-year ended 31 December 2008.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306 (3) of the Corporations Act 2001.

A handwritten signature in dark ink, appearing to read 'Laurence Roe', is written over a faint, light-colored rectangular stamp or watermark.

Laurence Roe

Director

Dated this 13th day of March 2009

**CONDENSED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	Note	Consolidated Group	
		31-Dec	31-Dec
		2008	2007
		\$	\$
Revenue		1,154,033	288,491
Foreign exchange gain		295,779	-
Other income		79	-
Oil and gas production expenses & taxes		(102,705)	(12,722)
Accounting expense		(36,321)	(45,675)
Audit fees		(14,560)	(7,500)
Consultants		(109,560)	(4,215)
Amortisation		(221,826)	(66,694)
Depreciation expense		(13,102)	(25,822)
Employee benefits expense		(220,989)	(176,166)
Exploration costs		(1,228,794)	-
Finance costs		-	(1,968)
Foreign exchange loss		-	(132,947)
Insurance		(12,225)	(17,655)
Legal expenses		(2,329)	(4,325)
ASX fees		(44,181)	(23,492)
Office expense		(53,052)	(58,783)
Option issue expense		(14,700)	-
Other expenses		(47,648)	(63,760)
Promotions and advertising		(2,556)	(26,742)
Share registry expense		(25,239)	(10,175)
Travel and accommodation		(64,704)	(59,792)
Loss before income tax expense	2	(764,600)	(449,942)
Income tax expense		-	-
Loss attributable to members of the parent entity		(764,600)	(449,942)
Basic and diluted loss per share (cents per share)		(0.75)	(0.66)

The accompanying notes form part of these financial statements

CONDENSED BALANCE SHEET
AS AT 31 DECEMBER 2008

	Note	Consolidated Group	
		31-Dec	30-Jun
		2008	2008
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents		4,737,080	2,430,146
Trade and other receivables		634,511	266,125
Other financial assets		50,000	50,000
Total Current Assets		5,421,591	2,746,271
NON-CURRENT ASSETS			
Property, plant & equipment	3	3,547,887	46,434
Deferred exploration, evaluation and development expenditure	4	1,887,738	4,189,787
Total Non-Current Assets		5,435,625	4,236,221
TOTAL ASSETS		10,857,216	6,982,492
CURRENT LIABILITIES			
Trade and other payables		424,822	730,261
Total Current Liabilities		424,822	730,261
TOTAL LIABILITIES		424,822	730,261
NET ASSETS		10,432,394	6,252,231
EQUITY			
Issued capital	5	14,865,758	11,713,596
Reserves		1,593,431	(199,170)
Accumulated losses		(6,026,795)	(5,262,195)
TOTAL EQUITY		10,432,394	6,252,231

The accompanying notes form part of these financial statements

**CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

	Ordinary Shares	Accumulated Losses	Option Reserve	Share Based Payments Reserve	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$	\$
Consolidated Group						
Balance at 1 July 2007	9,485,246	(1,238,886)	340,000	12,690	(156,379)	8,442,671
Shares issued during the period	2,550,000	-	-	-	-	2,550,000
Transaction costs	(156,825)	-	-	-	-	(156,825)
Loss attributable to members of the parent entity	-	(449,942)	-	-	-	(449,942)
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	(103,465)	(103,465)
Balance at 31 December 2007	11,878,421	(1,688,828)	340,000	12,690	(259,844)	10,282,439
Balance at 1 July 2008	11,713,596	(5,262,195)	340,000	201,140	(740,310)	6,252,231
Shares issued during the period	3,391,167	-	-	-	-	3,391,167
Options issued during the period	-	-	-	14,700	-	14,700
Transaction costs	(239,005)	-	-	-	-	(239,005)
Loss attributable to members of the parent entity	-	(764,600)	-	-	-	(764,600)
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	1,777,901	1,777,901
Balance at 31 December 2008	14,865,758	(6,026,795)	340,000	215,840	1,037,591	10,432,394

The accompanying notes form part of these financial statements

**CONDENSED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	Consolidated Group	
	31-Dec	31-Dec
	2008	2007
	\$	\$
	Inflows/(Outflows)	
Cash Flows from Operating Activities		
Receipts from customers	1,073,790	129,618
Payments to suppliers and employees	(776,431)	(537,033)
Interest received	103,118	111,910
Net cash used in operating activities	400,477	(295,505)
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	-	(278,004)
Exploration and development expenditure	(1,531,254)	(1,216,691)
Net cash used in investing activities	(1,531,254)	(1,494,695)
Cash Flows from Financing Activities		
Proceeds from issue of shares	3,380,937	2,550,000
Share issue expenses	(239,005)	(132,225)
Net cash provided by financing activities	3,141,932	2,417,775
Net increase in cash held	2,011,155	627,575
Cash at 1 July 2008	2,430,146	5,854,143
Effect of exchange rate changes on the balance of cash held in foreign currencies	295,779	(236,412)
Cash at the end of the financial period	4,737,080	6,245,306

The accompanying notes form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2008**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2008 and any public announcements made by Target Energy Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

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

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

In the half-year ended 31 December 2008, the company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2008.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to company accounting policies.

NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

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

	Consolidated Group	
	2008	2007
	\$	\$
(a) Revenue		
Oil and Gas income	1,051,034	176,581
Interest received	102,999	111,910
Foreign exchange gain	295,779	-
Other income	79	-
	1,449,891	288,491
(b) Expenses		
Depreciation of non-current assets	13,102	25,822
Net foreign exchange losses	-	132,947
Option issue expense	14,700	-
Contribution to employee superannuation plans	18,547	15,888

NOTE 3: PROPERTY PLANT AND EQUIPMENT

	Consolidated Group			
	Office Equipment	Computer Equipment	Oil & Gas Properties	Total
	\$	\$	\$	\$
Half year ended 31 December 2008				
At 1 July 2008, net of accumulated depreciation	27,391	19,043	-	46,434
Additions	-	-	-	-
Transferred from Development expenditure	-	-	3,514,555	3,514,555
Depreciation charge for the half-year	(3,372)	(9,730)	-	(13,102)
At 31 December 2008, net of accumulated depreciation	<u>24,019</u>	<u>9,313</u>	<u>3,514,555</u>	<u>3,547,887</u>
Year ended 30 June 2008				
At 1 July 2007, net of accumulated depreciation	32,397	38,173	-	70,570
Additions	1,593	154	-	1,747
Depreciation charge for the year	(6,599)	(19,284)	-	(25,883)
At 30 June 2008, net of accumulated depreciation	<u>27,391</u>	<u>19,043</u>	<u>-</u>	<u>46,434</u>
At 31 December 2008				
Cost	36,843	48,248	3,514,555	3,599,646
Accumulated depreciation	(12,824)	(38,935)	-	(51,759)
Net carrying amount	<u>24,019</u>	<u>9,313</u>	<u>3,514,555</u>	<u>3,547,887</u>
At 30 June 2008				
Cost	36,843	48,248	-	85,091
Accumulated depreciation	(9,452)	(29,205)	-	(38,657)
Net carrying amount	<u>27,391</u>	<u>19,043</u>	<u>-</u>	<u>46,434</u>

NOTE 4: DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

	Consolidated Group	
	31-Dec	30-Jun
	2008	2008
	\$	\$
Costs carried forward in respect of:		
Exploration and evaluation phase - at cost		
Balance 1 July	1,506,637	2,521,438
Effects of movements in foreign exchange	587,429	(307,171)
Expenditure incurred	1,004,424	5,779,895
	<u>3,098,490</u>	<u>7,994,162</u>
Expenditure written off	(819,672)	(1,656,313)
Impairment losses charged to profit or loss	-	(790,427)
Provision for amortisation	(7,086)	-
Transferred to other receivable	(383,994)	-
Transferred to development phase	-	(4,040,785)
Balance 30 June	<u>1,887,738</u>	<u>1,506,637</u>
Development phase - at cost		
Balance 1 July	2,683,150	-
Effects of movements in foreign exchange	1,046,145	-
Expenditure incurred	409,123	-
	<u>4,138,418</u>	<u>-</u>
Expenditure written off	(409,123)	-
Transferred from exploration and evaluation phase	-	4,040,785
Impairment losses charged to profit or loss	-	(1,181,107)
Provision for amortisation	(214,740)	(176,528)
Transferred to Oil and Gas Properties	(3,514,555)	-
Balance 30 June	<u>-</u>	<u>2,683,150</u>
Total exploration and development expenditure	<u>1,887,738</u>	<u>4,189,787</u>

NOTE 5: ISSUED CAPITAL

	Consolidated Group	
	31-Dec	30-Jun
	2008	2008
	\$	\$
104,321,170 (2007: 78,200,000) fully paid ordinary shares	14,865,758	11,713,596

	Consolidated Group	
	31-Dec	30-Jun
	2008	2008
	No.	No.
(i) Ordinary shares - number		
At start of period	78,244,500	68,000,000
Shares issued - 10,200,000 on 21 December 2007 at \$0.25	-	10,200,000
Shares issued - 44,500 on 20 June 2008 at \$0.25	-	44,500
Shares issued - 10,000 on 10 July 2008 at \$0.25	10,000	-
Shares issued - Rights issue 1 for 3, 26,066,667 on 15 July 2008 at \$0.13	26,066,667	-
Shares issued on option conversion - 3 on 1 December 2008 at \$0.25	3	-
Balance at 31 December 2008	104,321,170	78,244,500

	Consolidated Group	
	31-Dec	30-Jun
	2008	2008
	\$	\$
(ii) Ordinary shares – value		
At start of period	11,713,596	9,485,246
Shares issued - 10,200,000 on 21 December 2007 at \$0.25	-	2,550,000
Shares issued - 44,500 on 20 June 2008 at \$0.25	-	11,125
Shares issued - 10,000 on 10 July 2008 at \$0.25	2,500	-
Shares issued - Rights issue 1 for 3, 26,066,667 on 15 July 2008 at \$0.13	3,388,666	-
Less share issue costs	(239,005)	(332,775)
Shares issued on option conversion - 3 on 1 December 2008 at \$0.25	1	-
Balance at 31 December 2008	14,865,758	11,713,596

NOTE 6: SEGMENT REPORTING

Segment Information

The Group operates predominately in one geographical segment, for primary reporting, being the United States of America, and in one business segment for secondary reporting, being oil and gas exploration and production.

NOTE 7: EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to balance date, the Company withdrew from Participation Agreements covering the Catapult 3 and Parks North prospects due to lengthy ongoing delays and uncertainty over the commencement of drilling and the capacity of other project partners to secure requisite funding to drill these projects.

By formally withdrawing from the projects, existing investments in these prospects are to be returned to the Company and therefore an additional \$422,668 is now available for other projects.

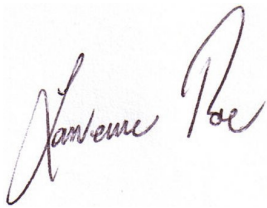
Other than this there has not arisen in the interval between the end of the half year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future periods.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes thereto, as set out on pages 3 to 11:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - b. give a true and fair view of the Group's financial position as at 31 December 2008 and of its performance for the period then ended.
2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303 (5) of the Corporations Act 2001.



Laurence Roe

Director

Dated this 13th day of March 2009

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of TARGET ENERGY LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report, which comprises the condensed balance sheet as at 31 December 2008, the condensed income statement, condensed statement of changes in equity, condensed cash flow statement and notes to the financial statements for the half-year ended on that date, and the directors' declaration, of Target Energy Limited and the entities it controlled during the half-year ended 31 December 2008 ("consolidated entity").

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001*, including giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Target Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

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HLB Mann Judd (WA Partnership) is a member of  HLB International, a world-wide organisation of accounting firms and business advisers

Independence

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

L Di Giallonardo

Perth, Western Australia
13 March 2009

L DI GIALLONARDO
Partner

Auditor's Independence Declaration

As lead auditor for the review of the financial report of Target Energy Limited for the half-year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Target Energy Limited.



Perth, Western Australia
13 March 2009

L DI GIALLONARDO
Partner, HLB Mann Judd