

Target Energy Limited

Report for the Quarter Ending 31 December 2009

Key Events

- Snapper #A-3 commenced production in November – currently flowing at approx 1.2 mmcfgd.
- Target increased its interest in East Chalkley field to 35% on 1 November.
- Pine Pasture #1 brought back online at East Chalkley field following drilling of salt-water disposal well.
- Multiple potential pay zones identified at Highway 71 drilling in December. Well currently being completed for production.
- Christopher Rowe appointed non-executive Chairman.

1. Production

Period: 1 October – 31 December 2009

Well	TEX WI	Gross Ave Daily Gas Prodn in Period (mcfgd)	Gross Gas Prodn in Period (mmcf)	Gross Gas Prodn to date (mmcf)	Gross Ave Daily Oil Prodn in Period (BOPD)	Total Oil Prodn in Period (BO)	Total Oil to date (BO)
Thoroughbred	25%	-	-	81.2	-	-	-
Snapper A-1	25%	530	48.8	832.1	-	-	3,039
Garwood	25%	-	-	57.8	-	-	-
Snapper A-2	25%	100	7.8	447.5	54.1	4,222	22,288
Beyt #1 [^]	15%	-	-	40.8	-	-	1,534
Pine Pasture #2 [*]	35%	-	-	-	72.4	6,658	36,561
Pine Pasture #1 ⁺	35%	-	-	-	29.7	267	267
Snapper A-3 ^{**}	25%	931	56.8	56.8	8.2	500	500
Total (Gross)			113.4	1516.3		11,647	64,189
Total (Net TEX WI)			28.3	375.0		3,369	16,351

[^] Well shut-in

^{*} Working Interest increased to 35% on 1 November 2009;

⁺ Brought online 22 December 2009;

^{**} Brought online on 11 November 2009

mmcf = million of cubic feet of gas, mmcfgd = million of cubic feet of gas per day; mcfgd = thousand cubic feet of gas per day; BO = barrels of oil, BOPD = barrels of oil per day.

2. Exploration

Louisiana – St Martin Parish

2.1. Snapper #A-3 (Target Energy 25% working interest)

The Snapper #A-3 well was drilled to a Total Depth of 3,198.3 metres and the rig released on 24 August 2009. Wireline logs indicated a potential 15 metres of net oil and gas pay in the Camerina, Upper and Lower 3rd Marg Tex and Hackberry Sands.

Measured Depth (metres)	Zone	Potential Net pay
2,937.7	1 st Camerina	4.3 m
2,972.5	3rd Marg Tex	3.6 m
2,982.2	Lower 3 rd Marg Tex	3.0 m
3,105.3	Hackberry A-4	4.3 m
Total		15.2 metres

On 11 November 2009, following the completion of the well in the Hackberry A-4 sand, the Snapper A-3 well went into production. At the end of the reporting period the well was producing approximately 1.2 mmcf/d plus 10 barrels of condensate per day.

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

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

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

Discussions are continuing regarding the timing of this well.

Texas – Wharton County

2.3. Highway 71 (Target Energy 25% WI)

In August 2009, Target acquired a 25% working interest in the “Highway 71” gas and condensate prospect, located in Wharton County Texas, approximately 100 kilometres west-southwest of Houston. The prospect was subsequently tested by the Merta #1 well.

Drilling at Merta #1 commenced on 26 October 2009. The well was drilled to a total depth of 4,125.2 metres and the rig released on 2 December 2009. Wireline log analysis indicated the presence of approximately 20 metres of net gas pay in the Cook Mountain, Upper Wilcox and Meek sands.

Zone	Potential Net Pay
Cook Mountain	9.0 m
Upper Wilcox	4.9 m
1 st Meek Sand	gas charged - appears tight
1 st Meek “B” Sand	6.4 m
2 nd Meek Sand	tight
Total	20.3 metres

Subsequent to the reporting period: testing of an interval over the deeper 2nd Meek Sand showed that zone to be tight; the well is presently being completed for production from the 1st Meek “B” Sand.

3. Development

Louisiana - Cameron Parish

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

The East Chalkley project is an oil field appraisal and development program, approximately 33 kilometres southeast of the town of Lake Charles in Cameron Parish, Louisiana. The oil accumulation, on the east flank of the Chalkley Field, is a previously unidentified down-dip oil leg associated with the gas field. Target participated in the successful drilling of the Pine Pasture #2 well in 2008.

On 1 November 2009, Target increased its working interest in the East Chalkley field to 35%.

The drilling of a salt-water disposal well was undertaken in November, with the well completed and brought on line on 22 December 2009.

The Pine Pasture #1 well, which had previously been shut-in awaiting the completion of the disposal well, was also brought back online on 22 December – production from this well expected to average 20 BOPD.

Production from the Pine Pasture #2 well is currently approximately 80 BOPD with an 18% oil cut.

The disposal well will substantially reduce operating costs for current and future producing wells in the field. Additional appraisal and/or development drilling is now being scheduled.

4. Current Indicative Drilling Schedule

Estimated Timing	Prospect/Field	Location	Target Working Interest	Potential Recoverable Volumes*
Completion Underway	Highway 71	Wharton Co, Tx	25%	TBA
Q2 2010	Bayou Berard ST	St Martin Parish, La	15%	750,000 BO
Q2 2010	East Chalkley	Cameron Parish, La	35%	2.1 mmBO

**Figures are operators' unrisks estimates and represent total prospect or field potential – additional drilling may be required to fully recover volumes.*

5. Corporate

5.1. Board of Directors

5.1.1. Chairman

Mr. Didier Murcia tendered his resignation from the Board and from his position as (non executive) Chairman on 31 December 2009.

Mr. Christopher Rowe was appointed to the Board as (non executive) Chairman effective 1 January 2010.

Mr. Rowe is currently Chairman of ASX listed DVM International Ltd and Northern Star Resources Ltd and is on the advisory committee of the US based Avalon and Hermosa Oil and Gas Production Partnerships. He is also the Chairman of fund manager Hawkesbridge Private Equity Pty Ltd.

5.1.2. Non-executive Director

Mr. Gerry McGann tendered his resignation from the Board on 19 November 2009.

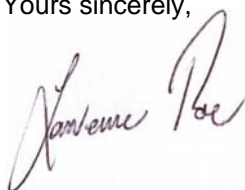
5.2. Capital Raising

5.2.1. Rights Issue

The Company completed an underwritten rights issue which raised \$2.5m before costs.

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

Yours sincerely,



Laurence Roe
Managing Director

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

Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

Target Energy Limited

ABN

73 119 160 360

Quarter ended ("current quarter")

31 December 2009

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	205	475
1.2 Payments for		
(a) exploration and evaluation	(1,395)	(1,408)
(b) development	(256)	(532)
(c) production	(56)	(208)
(d) administration	(375)	(808)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	9	18
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(1,868)	(2,463)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a)prospects	(488)	(796)
(b)equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of:		
(a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	(488)	(796)
1.13 Total operating and investing cash flows (carried forward)	(2,356)	(3,259)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(2,356)	(3,259)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	2,507	2,914
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – share issue expenses	(252)	(274)
	Net financing cash flows	2,255	2,640
	Net increase (decrease) in cash held	(101)	(619)
1.20	Cash at beginning of quarter/year to date	2,066	2,651
1.21	Exchange rate adjustments to item 1.20	(15)	(82)
1.22	Cash at end of quarter	1,950	1,950

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

	Current quarter \$A'000
1.2 Aggregate amount of payments to the parties included in item 1.2	132
1.2 Aggregate amount of loans to the parties included in item 1.10	-

1.2 Explanation necessary for an understanding of the transactions

Directors' fees and salaries.

Non-cash financing and investing activities

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

Not Applicable

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

Not Applicable

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

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

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	654
4.2 Development	292
Total	946

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,900	2,016
5.2 Deposits at call	50	50
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1,950	2,066

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1		Interests in mining tenements relinquished, reduced or lapsed		
6.2		Interests in mining tenements acquired or increased		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (see note 3)	Amount paid up per security (see note 3)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	157,307,450	157,307,450		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	45,586,280	45,586,280	5.5 cents	Fully paid
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and Conversion factor)</i>	<i>Incentive Options</i>		<i>Exercise price</i>	<i>Expiry date</i>
	6,000,000 1:1	Nil	20 cents	30/06/2011
	750,000 1:1	Nil	12 cents	7/8/2011
	52,986,280 1:1	52,986,280	10 cents	31/10/2012
7.8 Issued during quarter	45,586,280 1:1	45,586,280	10 cents	31/10/2012
7.9 Exercised during quarter				
7.10 Expired during quarter	62,812,164 1:1	62,812,164	25 cents	26/11/2009
7.11 Debentures <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

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



Sign here: _____
(Company Secretary)

Date: 29 January 2010

Print name: Rowan Caren

Notes

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

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