

Target Energy Limited

(ABN 73 119 160 360)

Annual Financial Report for the year ended 30 June 2008

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CORPORATE INFORMATION

ABN 73 119 160 360

Directors

Didier Murcia (Chairman)
Laurence Roe
Michael Martin
Paul Lloyd

Company Secretary

Rowan Caren

Registered office

30 Ledger Road
Balcatta, Western Australia 6021 Australia

Principal place of business

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West Perth, Western Australia 6005 Australia
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Share Register

Advanced Share Registry Services
110 Stirling Highway
Nedlands, Western Australia, 6009 Australia

Solicitors

Murcia Pestell Hillard Pty Ltd
Level 3, 23 Barrack Street
Perth, Western Australia 6000

Auditors

HLB Mann Judd
Level 2, 15 Rheola Street
West Perth WA 6005

ASX Codes

TEX (shares)
TEXO (options)

Your directors submit the annual financial report of the consolidated entity for the financial year ended 30 June 2008. In order to comply with the provisions of the Corporations Act, the directors report as follows:

Directors

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

Didier Marcel Murcia B.Juris, LLB (Chairman)

Didier Murcia is a corporate solicitor, with a resources law emphasis, and is chairman of Western Australian legal firm Murcia Pestell Hillard. Mr Murcia has over 20 years corporate, commercial and legal experience. He is also the Honorary Consul for the United Republic of Tanzania.

During the last three years, Mr Murcia has also served as a director of the following listed companies:

- Gindalbie Metals Limited*
- Gryphon Minerals Limited*
- Aminex PLC* listed on the London Stock Exchange.

** denotes current directorships*

Laurence Edmund Roe B.Sc (Managing Director)

Mr Roe is a petroleum professional with over 25 years experience gained in the industry both in Australian and international projects. He commenced his career with Santos Limited, later taking a senior technical position with Magellan Petroleum Australia Limited, where he was later appointed Exploration Manager. While with Magellan, he had substantial involvement with US and other international projects.

In 1997, Mr Roe left Magellan to start a consulting practice. He has since consulted for numerous Australian explorers, including Santos, Strike Oil and Icon Energy. More recently, he consulted to Hardman Resources Limited, working on their Mauritanian deep-water acreage at the time the major Chinguetti oil discovery was made. Mr Roe was appointed Exploration Manager for Bounty Oil & Gas NL in 2001, responsible for its portfolio of Australian and international acreage. He was later appointed as Managing Director.

His experience encompasses most Australian sedimentary basins, as well as the USA, New Zealand, Mauritania, Tanzania, Canada, Indonesia, Belize and Argentina.

During the last three years, Mr Roe has also served as a director of the following listed company:

- Bounty Oil & Gas NL to 30 November 2005.

Michael John Martin B.Sc (Hons), F.G.S. (Non Executive Director)

Michael J. Martin is a practising geologist and has been actively involved with international resources industries for more than 25 years. Mr Martin began his professional career in Kuwait and later the western Mediterranean offshore oil fields of Spain, prior to joining the burgeoning North Sea oil boom in the early seventies. Following assignments in London with Atlantic Richfield and Cities Service, he joined Getty Oil in their Perth, Western Australia office. After his departure from Getty, Mr Martin worked within the petroleum division of Western Mining Corporation. He later started his own consulting practice.

Mr Martin was a co-founder of Flare Petroleum N.L., and guided the technical advancement of the Australian assets of its Canadian successor company. He has served as a Director of Canadian listed Chariot Resources Ltd and Franklin Resources Ltd.

Mr Martin has no other public company directorships and has not held any public company directorships in the last 3 years.

Paul Geoffrey Lloyd, B.Bus CA (Non Executive Director/Company Secretary)

Paul Lloyd is a Chartered Accountant with over 20 years commercial experience. Mr Lloyd operates his own corporate consulting business, specialising in the area of corporate, financial and management advisory services. After commencing his career with an international accounting firm, he was employed for approximately 10 years as the General Manager of Finance for a Western Australian based international drilling contractor working extensively in Asia and Africa.

Mr Lloyd is currently a company secretary of a number of public companies in the resource industry.

Mr Lloyd was Company Secretary of the Company until 8 August 2008.

During the last three years, Mr Lloyd has also served as a director of the following listed companies:

- Beacon Minerals Limited*
- Riviera Resources Limited*

* denotes current directorships

Rowan St John Caren, B.Com CA (Company Secretary)

Mr Caren graduated with a Bachelor of Commerce (Accounting) from the University of Western Australia and is a member of the Institute of Chartered Accountants in Australia. He qualified with PricewaterhouseCoopers and worked for them in Australia and overseas for six years. He has since been directly involved in the exploration industry for a further 12 years, initially with a minerals explorer based in Perth but with operations in South America and Asia, for which he acted as an executive and company secretary. In 2004 he created a specialist company secretarial and advisory consultancy, Dabinett Corporate Pty Ltd. Dabinett Corporate provides financial and corporate services to several listed and unlisted companies involved in the resources, industrial and property sectors.

During the last three years, Mr Caren served as a director of the following listed companies:

- Indo Mines Limited to 22 March 2006

Directors' interests in the shares and options of the company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Target Energy Limited were:

	<u>Number of remuneration options (i)</u>	<u>Number of other options (ii)</u>	<u>Number of fully paid ordinary shares</u>
Didier Murcia	-	550,000	1,050,000
Laurence Roe	2,000,000	2,700,000	5,200,000
Michael Martin	2,000,000	2,038,461	4,038,461
Paul Lloyd	2,000,000	1,237,566	2,362,566

(i) Exercisable at 20 cents on or before 30 June 2011.

(ii) These options were issued to all shareholders on the basis of 1 option for every 2 shares held as per the prospectus dated 9 March 2007. These options are exercisable at 25 cents on or before 26 November 2009. Further options were issued to all participating shareholders pursuant to the rights issue on the basis of 1 option for every share subscribed as per the prospectus dated 5 June 2008.

Share Options

Details of unissued ordinary shares under options are as follows:

	<u>Number of options</u>	<u>Exercise price</u>	<u>Expiry date</u>
Unlisted options	6,000,000	20 cents	30 June 2011
Unlisted options	500,000	12 cents	17 August 2011
Listed options	62,812,167	25 cents	26 November 2009

44,500 ordinary shares were issued during the financial year as a result of the exercise of options.

Dividends

No dividends have been paid or declared since the start of the financial year and the directors do not recommend the payment of a dividend in respect of the financial year.

Principal Activities

The principal activities of the entities within the consolidated entity during the year were the production of and exploration for oil and gas in the United States of America.

There have been no significant changes in the nature of those activities during the year other than those described below.

Review of operations

During the year, the Company continued to explore its oil and gas prospects in Texas and Louisiana with significant success. Wells have been brought onto production at Garwood, Thoroughbred, Bayou Berard, Snapper 1 and 2. Subsequent to the year end the Pine Pasture #2 well on the East Chalkley prospect was also successfully completed and brought into production.

Operating results for the year

Net loss attributable to equity holders of the parent for the year ended 30 June 2008 was \$4,023,309 (2007: \$1,238,886). Basic loss per share was 5.5 cents (2007: 3.2 cents)

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the consolidated entity to the date of this report, not otherwise disclosed in this report.

Significant events after balance date

On 7 July 2008 the Company closed its 1 for 3 renounceable rights issue having raised \$3,388,589 via the issue of 26,066,067 shares and 26,066,067 options, exercisable at 25 cents each by 26 November 2009.

On 31 July 2008, the Company announced the completion of the Pine Pasture #2 well on the East Chalkley prospect. The Company advised that oil bearing sands were intersected and subsequently advised that flow testing is continuing.

On 4 August 2008 the Company announced that the drilling of the Vincent #1 well on the Bandito prospect had reached target depth. Evaluation of results indicated that the target sands are absent and the well has been plugged and abandoned.

On 7 August 2008, the Company granted 500,000 unlisted options to its US based manager. These options are exercisable at 12 cents on or before 7 August 2011.

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Likely developments and expected results

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Therefore, this information has not been presented in this report.

Environmental legislation

The consolidated entity as non-operator is not subject to any significant environmental legislation. In all projects the operator is responsible for ensuring compliance with environmental regulations.

Indemnification and insurance of Directors and Officers

The Company has agreed to indemnify the following current officers of the Company, Mr D Murcia, Mr L Roe, Mr M Martin, Mr P Lloyd and Mr R Caren, against all liabilities to another person (other than the Company or related body

corporate) that may arise from their position as officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the Company or related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The total amount of premium paid was \$19,850.

Remuneration report (audited)

The Remuneration Report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration
- B. Details of remuneration
- C. Service agreements
- D. Share-based compensation

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited.

This report outlines the remuneration arrangements in place for directors and executives of Target Energy Limited (the "company").

A. Principles used to determine the nature and amount of remuneration

Remuneration philosophy

The performance of the Group depends upon the quality of its directors and executives. To prosper, the Group must attract, motivate and retain highly skilled directors and executives.

To this end, the Group embodies the following principles in its compensation framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value;
- Significant portion of executive compensation 'at risk', dependent upon meeting pre-determined performance benchmarks; and
- Establish appropriate, demanding performance hurdles in relation to variable executive compensation

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

Fixed Remuneration

Fixed remuneration is reviewed annually by the Board of Directors. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices.

Variable Remuneration

All the current directors were involved in the creation of the company and therefore hold significant numbers of shares and options. The board does not consider it necessary at the present time to take additional steps to link the remuneration of Directors with the creation of shareholder wealth. Given the current structure, there exists a direct link between the creation of shareholder wealth performance and the financial rewards for the directors.

Remuneration Reviews

The Board of Directors of the Parent is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and all other key management personnel.

The Board of Directors assesses the appropriateness of the nature and amount of compensation of key management personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Remuneration structure

In accordance with best practice Corporate Governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level that provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. The compensation of non-executive directors for the period ending 30 June 2008 is detailed below.

*Senior manager and executive director remuneration**Objective*

The entity aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the entity so as to:

- reward executives for company, business unit and individual performance against targets set to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link rewards with the strategic goals and performance of the company; and
- ensure total compensation is competitive by market standards.

Compensation consists of the following key elements:

- Fixed Compensation;
- Variable Compensation;
- Short Term Incentive (STI); and
- Long Term Incentive (LTI).

The proportion of fixed compensation and variable compensation (potential short term and long term incentives) is established for each key management personnel by the Directors.

Fixed Compensation*Objective*

Fixed compensation is reviewed annually by the Directors. The process consists of a review of individual performance, relevant comparative compensation in the market and internally and, where appropriate, external advice on policies and practices.

Structure

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans.

Variable Compensation — Short Term Incentive (STI)*Objective*

The objective of the STI program is to link the achievement of the company's operational targets with the compensation received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the company is reasonable in the circumstances.

Structure

Actual STI payments granted to each key management personnel depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators ("KPIs") covering both financial and non-financial measures of performance.

Variable Pay — Long Term Incentive (LTI)*Objective*

The objective of the LTI plan is to reward executives in a manner that aligns this element of compensation with the creation of shareholder wealth. As such LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdle.

Structure

LTI grants to key management personnel are delivered in the form of options.

B. Details of remuneration for the year ended 30 June 2008

		Primary benefits	Post employment	Equity	Total	%	
Directors		Salary & Fees	Non Monetary Benefits	Superannuation	Options	Performance related	
D Murcia	2008	38,000	7,218	-	-	45,218	-
	2007	21,300	4,214	-	-	25,514	-
L Roe	2008	231,000	7,218	20,790	-	259,008	-
	2007	186,792	4,214	13,211	4,230	208,447	2
M Martin	2008	40,030	7,218	3,603	-	50,851	-
	2007	170,616	4,214	12,610	4,230	191,670	2
P Lloyd	2008	80,000	7,218	2,880	-	90,098	-
	2007	62,000	4,214	1,800	4,230	72,244	6
Total	2008	389,030	28,872	27,273	-	445,175	-
	2007	440,708	16,856	27,621	12,690	497,875	3

Note – Mr R Caren, the Company Secretary, was appointed on 8 August 2008 and therefore no remuneration is included in this report.

C. Service agreements*Employment Contract*

The Managing Director, Mr Laurence Roe is employed under contract. The current employment contract commenced on 10 November 2006 and terminates on 10 November 2009, at which time the Company may choose to commence negotiations to enter into a new employment contract with Mr Roe.

The main terms of the employment contract with Mr Roe are as follows:

- Remuneration of \$325,000 pa inclusive of superannuation effective 1 July 2008.
- Salary reviewed each year at the discretion of the Company
- Either party is entitled to terminate the agreement by six months notice
- On redundancy the Company will be obliged to make a payment of two years' salary.

D. Share-based compensation

During the financial year no options were granted as equity compensation benefits under a long-term incentive plan to key management personnel.

During the year ended 30 June 2007, the following options were issued free of charge. The options are exercisable at any time on or before 30 June 2011 at a price of 20 cents per share. For further details relating to the options, refer to Note 11.

30 June 2007	Vested	Granted	Terms and Conditions for each Grant					
			Grant Date	Fair Value per option at grant date (Note 12)	Exercise price per option (Note 12)	Expiry Date	First Exercise Date	Last Exercise Date
Directors	No.	No.						
Didier Murcia	-	-	-	-	-	-	-	-
Laurence Roe	2,000,000	2,000,000	4 July 2006	0.2 cents	20 cents	30 June 2011	current	30 June 2011
Michael Martin	2,000,000	2,000,000	4 July 2006	0.2 cents	20 cents	30 June 2011	current	30 June 2011
Paul Lloyd	2,000,000	2,000,000	4 July 2006	0.2 cents	20 cents	30 June 2011	current	30 June 2011
Total	6,000,000	6,000,000						

Options granted as part of remuneration

30 June 2007	<u>Value of options granted at grant date</u>	<u>Value of options exercised at exercise date</u>	<u>Value of options lapsed at time of lapse</u>	<u>Total value of options granted, exercised and lapsed</u>	<u>Value of options lapsed during year</u>	<u>Value of options included in remuneration for the year</u>	<u>% remuneration consisting of options for the year</u>
D Murcia	-	-	-	-	-	-	-
L Roe	4,230	-	-	4,230	-	4,230	2
M Martin	4,230	-	-	4,230	-	4,230	2
P Lloyd	4,230	-	-	4,230	-	4,230	6

For details on the valuation of the options, including models and assumptions used, please refer to Note 11. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

Shares issued on Exercise of Compensation Options (Consolidated)

No compensation options were exercised during the period.

Directors' Meetings

The number of meetings of directors held during the year and the number of meetings attended by each director was as follows:

Directors during the year ended 30 June 2008	Full meetings of directors	
	A	B
D Murcia	10	9
L Roe	10	10
M Martin	10	9
P Lloyd	10	10

A = Number of meetings held during the time that the director held office

B = Number of meetings attended in person or by conference call

Auditor Independence and Non-Audit Services

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 audit of the financial report. This Independence Declaration is set out on page 17 and forms part of this directors' report for the period ended 30 June 2008.

Non-Audit Services

There were no non-audit services provided by our auditors, HLB Mann Judd. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act.

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the integrity and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

Signed in accordance with a resolution of the directors.



Laurence Roe
Managing Director

Perth, 30 September 2008

This statement outlines the main corporate governance practices in place throughout the year ended 30 June 2008, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Board of directors

Role of the board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

Board Processes

The Board has established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and appropriate ethical standards.

The full Board schedules meetings, including strategy meetings and any extraordinary meetings, as necessary to address any specific significant matters that may arise. The agenda for meetings is prepared in conjunction with the Chairman and Company Secretary. Standing items include the management report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance.

The consolidated entity is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of separate board committees, including a Nomination Committee, Remuneration Committee or an Audit Committee. Accordingly, all matters that may be considered by such committees are dealt with by the full board. Details of the board's procedures in respect to each of these areas are further outlined within the Corporate Governance Statement below - see Nomination Committee, Remuneration Committee and Audit committee respectively.

Director Education

The consolidated entity has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit consolidated entity facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Independent Professional Advice and Access to Company Information

Each Director has the right of access to all relevant company information and to the Company's executives and, subject to prior consultation with the chairman, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.

Composition of the Board

The names of the Directors of the Company in office at the date of this report are set out in the Directors' Report on page 4 and 5.

The composition of the Board is determined using the following principles:

- A minimum of three directors, with a broad range of expertise both nationally and internationally
- Directors having extensive knowledge of the Company's industries, and those which do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management and financing of public companies
- The roles of Chairman and Managing Director are not to be exercised by the same individual; and
- A maximum period of three years service, subject to re-election every two years (except for the Managing Director).

Board of directors (continued)

Board members have experience in the management of public companies. The board currently does not have a majority of independent directors as recommended by the ASX Corporate Governance Council, however as the Chairman is an independent director and would have the casting vote in any deadlock, it is considered that the independent directors are able to exert effective control over management.

The board considers Messrs Murcia and Martin to be independent directors. Mr Martin was an executive of the Company until mid 2007 but has since operated as a non-executive. The board believes that the time lapsed since he ceased to be an executive and the role performed by Mr Martin is in the nature of an independent director.

The directors consider that the current number of independent directors in the Company is appropriate for the effective execution of the board's responsibilities. The directors periodically monitor the need to appoint additional independent directors.

Nomination Committee

The board considers that a formally constituted Nomination Committee is not appropriate as the board, as part of its usual role, oversees the appointment and induction process for directors, and the selection, appointment and succession planning process of the Company's executive officers. The board considers the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the board determines the selection criteria based on the skills deemed necessary. The board identifies potential candidates and may take advice from an external consultant. The board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders.

The chairman of the board continually reviews the effectiveness of the board, individual directors, and senior executives. The other directors have an opportunity to contribute to the review process. The reviews generate recommendations to the board, which votes on them. Directors displaying unsatisfactory performance are required to retire.

Remuneration Committee

The board considered that a formally constituted Remuneration Committee is not appropriate as the board, as part of its usual role, oversees the appointment and remuneration of directors and the Company's executive officers. Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The board may seek independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages include a mix of fixed remuneration, performance-based remuneration, and equity-based remuneration.

The remuneration structures explained below are designed to attract suitably qualified candidates, and to affect the broader outcome of maximising the Company's profitability. The remuneration structures take into account:

- Overall level of remuneration for each director and executive;
- The executive's ability to control the performance of the relevant area; and
- The amount of incentives within each executive's remuneration.

Shares and options can only be issued to Company Directors under a resolution at a general meeting of shareholders.

Non-Executive Directors may receive a base fee and can be remunerated by way of share and option issues approved under a resolution at a general meeting of shareholders.

The board has no established retirement or redundancy schemes.

Audit committee

The consolidated entity is not currently considered to be of a size, nor are its affairs of such complexity to justify the establishment of a separate Audit Committee. Whilst the Company does not have a formally constituted Audit Committee, the board, as part of its usual role, undertakes audit related responsibilities including:

- Reviewing the annual and interim financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles, and assessing whether the financial information is adequate for shareholders needs;
- Assessing corporate risk assessment processes;

- Assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence which is consistent with Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board;
- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Securities Exchange and financial institutions.
- Reviewing the nomination and performance of the external auditor. The external audit engagement partner will be rotated every five years;
- Assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements.

The directors review the performance of the external auditors on an annual basis and normally meet with them during the year to:

- Discuss the external audit plans, identify any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- Review the annual and half-year reports prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend board approval of these documents, prior to announcement of result.

The board monitors the need to form an Audit Committee on a periodic basis.

Risk Management

Overview of the Risk Management System

The Board adopts practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the Company's risk profile. This includes assessing, monitoring and managing operational, financial reporting, and compliance risks for the consolidated entity. The consolidated entity is not of a size nor are its affairs of such complexity to justify the establishment of a formal system for reporting risk management and associated compliance and controls. Instead, a director, in accordance with company policy, approves all expenditure, is intimately acquainted with all operations and reports all relevant issues to the other directors at the directors' meetings. The managing director and company secretary has declared to the board, that the aforementioned system is working efficiently and effectively. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the entire part of the financial year that the Company operated and the period up to the signing of the annual financial report for all material operations in the consolidated entity.

Risk Profile

The consolidated entity is not currently considered to be of a size, nor are its affairs of such complexity to justify the establishment of a separate Risk Management Committee. Instead, the board, as part of its usual role and through direct involvement in the management of the Company's operations ensures risks are identified, assessed and appropriately managed. Where necessary, the board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.

Major risks arise from such matters as actions by competitors, government policy changes, difficulties in sourcing raw materials, the robustness of the technologies being used or proposed to be used, environment, occupational health and safety, financial reporting and the purchase, development and use of information systems.

Risk Management, Compliance and Control

The board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities.

Practices have been established to ensure:

- Capital expenditure and revenue commitments above a certain size obtain prior board approval;
- Financial exposures are controlled, including the potential use of derivatives;
- Occupational health & safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- Business transactions are properly authorised and executed;
- The quality and integrity of personnel (see below);
- Financial reporting accuracy and compliance with the financial reporting regulatory framework (see below); and
- Environmental regulation compliance (see below).

Quality and Integrity of Personnel

The Company conducts a comprehensive review of the ability and experience of potential employees prior to appointment. Informal appraisals will be conducted regularly with continuous feedback and on the job monitoring and training for all employees. Formal appraisals will be conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews will create an environment of co-operation and constructive dialogue with employees and senior management.

Financial Reporting

The company secretary and managing director have declared, to the board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

Following the reporting year, monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

Environmental Regulation

The consolidated entity's operations are subject to significant environmental regulation in relation to its operational activities. The consolidated entity is committed to achieving a high standard of environmental performance. The board is responsible for the regular monitoring of environmental exposures and compliance with environmental regulations.

The board believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the consolidated entity.

Internal Audit

The consolidated entity does not have a formally established internal audit function. The board ensures compliance with the internal controls and risk management procedures previously mentioned.

Ethical Standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity.

Conflict of Interest

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the board believes that a significant conflict exists for a director on a board matter, the director concerned is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and consolidated entity are set out in Note 20.

Code of conduct

The Company has established a Code of Conduct (Code) which aims to develop a consistent understanding of, and approach to, the desired standards of conduct and behaviour of the directors, officers, employees and contractors (collectively, the Employees) in carrying out their roles for the Company. Through this Code, the Company seeks to encourage and develop a culture of professionalism, honesty and responsibility in order to maintain and enhance our

reputation as a valued employer, business operator and "corporate citizen". The Code is designed to broadly outline the ways in which the Company wishes to conduct its business. The Code does not cover every possible situation that Employees may face, but is intended to provide Employees with a guide to taking a commonsense approach to any given situation, within an overall framework.

Trading in consolidated entity securities by directors and employees

The Company has established a Security Trading Policy that is provided to all Directors and employees on commencement.

The constitution permits directors to acquire shares in the Company. Company policy prohibits directors from dealing in shares whilst in possession of price sensitive information. Directors must notify the company secretary once they have bought or sold shares in the Company or exercised options over ordinary shares. In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Securities Exchange, the Company on behalf of the directors must advise the Australian Securities Exchange of any transactions conducted by them in shares and / or options in the Company.

Communication with Shareholders

The board has formally documented the Company's continuous disclosure procedures and established a Compliance policy. The board, as part of its usual role, provides shareholders with information using comprehensive continuous disclosure processes which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX and issuing media releases.

In summary, the continuous disclosure processes operate as follows:

- The chairman and the company secretary are responsible for all communications with the ASX. Matters that may have an effect on the price of the Company's securities are advised to the ASX on the day they are discovered. Senior executives monitor all areas of the group's internal and external environment;
- The full annual financial report is made available to all shareholders, and includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments;
- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the year. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it;
- Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders;
- All announcements made to the market, and related information (including information provided to analysts and the media), are released to the ASX; and
- The external auditor attends the Annual General Meeting to answer any questions concerning the audit and the content of the Auditor's Report.

The board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the constitution. Copies of the constitution are available to any shareholder on request.

Auditor's Independence Declaration

As lead auditor for the audit of the financial report of Target Energy Limited for the year ended 30 June 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Target Energy Limited.



Perth, Western Australia
30 September 2008

L DI GIALLONARDO
Partner, HLB Mann Judd

**INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008**

	Note	Consolidated Group		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
Revenue	2	1,262,372	203,400	419,052	221,277
Other income	2	-	51	-	51
Oil and gas production expenses & taxes		(195,224)	-	-	-
Accounting expense		(94,963)	(62,708)	(58,636)	(55,156)
Audit fees		(21,500)	(13,700)	(21,500)	(13,700)
Consultants		(46,553)	(146,213)	(17,465)	(146,213)
Amortisation	10	(176,528)	-	-	-
Depreciation expense	2	(25,883)	(12,774)	(25,883)	(12,774)
Directors' fees		(102,000)	(43,800)	(102,000)	(43,800)
Employee benefits expense		(292,424)	(335,778)	(292,424)	(335,778)
Exploration costs	10	(1,656,313)	(169,454)	-	-
Foreign exchange loss	2	(254,256)	(325,146)	(862,148)	(481,525)
Insurance		(31,153)	(17,669)	(31,153)	(17,669)
Legal expenses		(16,548)	(82,717)	(16,548)	(82,717)
Listing fees		(39,719)	(4,737)	(39,719)	(4,737)
Office expense		(97,695)	(74,195)	(97,424)	(74,195)
Option issue expense	2	(12,500)	(12,690)	(12,500)	(12,690)
Other expenses		(75,089)	(27,046)	(64,054)	(25,231)
Promotions and advertising		(42,142)	(15,480)	(42,142)	(15,480)
Share registry expense		(15,393)	(18,551)	(15,393)	(18,551)
Travel and accommodation		(118,264)	(79,679)	(118,264)	(79,679)
Impairment of non current assets	2	(1,971,534)	-	(3,220,728)	(184,866)
Loss before income tax expense		(4,023,309)	(1,238,886)	(4,618,929)	(1,383,433)
Income tax expense	3	-	-	-	-
Loss attributable to members of the parent entity		(4,023,309)	(1,238,886)	(4,618,929)	(1,383,433)
Basic loss per share (cents per share)	5	(5.5)	(3.2)		

The accompanying notes form part of these financial statements.

**BALANCE SHEET
AS AT 30 JUNE 2008**

		Consolidated Group		Parent Entity	
	Note	2008	2007	2008	2007
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	6	2,430,146	5,854,143	1,996,552	5,830,742
Trade and other receivables	7	266,125	36,039	21,792	36,039
Other financial assets	8	50,000	50,000	50,000	50,000
Total Current Assets		2,746,271	5,940,182	2,068,344	5,916,781
NON-CURRENT ASSETS					
Other financial assets	8	-	-	4,203,878	2,553,659
Plant & equipment	9	46,434	70,570	46,434	70,570
Deferred exploration, evaluation and development expenditure	10	4,189,787	2,521,438	-	-
Total Non-Current Assets		4,236,221	2,592,008	4,250,312	2,624,229
TOTAL ASSETS		6,982,492	8,532,190	6,318,656	8,541,010
CURRENT LIABILITIES					
Trade and other payables	12	730,261	89,519	66,282	86,507
Total Current Liabilities		730,261	89,519	66,282	86,507
TOTAL LIABILITIES		730,261	89,519	66,282	86,507
NET ASSETS		6,252,231	8,442,671	6,252,374	8,454,503
EQUITY					
Issued capital	13	11,713,596	9,485,246	11,713,596	9,485,246
Reserves	14	(199,170)	196,311	541,140	352,690
Accumulated losses		(5,262,195)	(1,238,886)	(6,002,362)	(1,383,433)
TOTAL EQUITY		6,252,231	8,442,671	6,252,374	8,454,503

The accompanying notes form part of these financial statements

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		\$ Inflows/(Outflows)	\$ Inflows/(Outflows)	\$ Inflows/(Outflows)	\$ Inflows/(Outflows)
Cash Flows from Operating Activities					
Receipts from customers		786,999	-	-	-
Payments to suppliers and employees		(1,200,459)	(1,193,888)	(932,558)	(1,343,912)
Interest received		230,668	203,400	418,680	221,277
Net cash used in operating activities	6(i)	(182,792)	(990,488)	(513,878)	(1,122,635)
Cash Flows from Investing Activities					
Purchase of property, plant and equipment		(1,747)	(83,344)	(1,747)	(83,344)
Exploration and development expenditure		(5,399,732)	-	-	-
Purchase of petroleum interests		-	(2,690,892)	-	-
Investment in term deposit		-	(50,000)	-	(50,000)
Loans to controlled entities		-	-	(5,478,839)	(2,738,525)
Net cash used in investing activities		(5,401,479)	(2,824,236)	(5,480,586)	(2,871,869)
Cash Flows from Financing Activities					
Proceeds from issue of shares		2,571,355	10,784,000	2,571,355	10,784,000
Share issue expenses		(156,825)	(958,754)	(156,825)	(958,754)
Net cash provided by financing activities		2,414,530	9,825,246	2,414,530	9,825,246
Net increase in cash held		(3,169,741)	6,010,522	(3,579,934)	5,830,742
Cash at the beginning of the financial year		5,854,143	-	5,830,742	-
Effect of exchange rate changes on the balance of cash held in foreign currencies		(254,256)	(156,379)	(254,256)	-
Cash at the end of the financial year	6	2,430,146	5,854,143	1,996,552	5,830,742

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

	Ordinary Shares	Retained Profits / (Accumulated Losses)	Option Reserve	Share Based Payments Reserve	Foreign Currency Translation Reserve	Total
	\$	\$	\$			\$
Parent						
Balance at start of period	-	-	-	-	-	-
Shares issued during the period	10,444,000	-	-	-	-	10,444,000
Options issued during the period	-	-	340,000	-	-	340,000
Issue of options to Directors	-	-	-	12,690	-	12,690
Transaction costs	(958,754)	-	-	-	-	(958,754)
Loss attributable to members of the parent entity	-	(1,383,433)	-	-	-	(1,383,433)
Balance at 30 June 2007	9,485,246	(1,383,433)	340,000	12,690	-	8,454,503
Balance at 1 July 2007	9,485,246	(1,383,433)	340,000	12,690	-	8,454,503
Shares issued during the year	2,561,125	-	-	-	-	2,561,125
Options issued during the year	-	-	-	188,450	-	188,450
Transaction costs	(332,775)	-	-	-	-	(332,775)
Loss attributable to members of the parent entity	-	(4,618,929)	-	-	-	(4,618,929)
Balance at 30 June 2008	11,713,596	(6,002,362)	340,000	201,140	-	6,252,374

	Ordinary Shares	Retained Profits / (Accumulated Losses)	Option Reserve	Share Based Payments Reserve	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$	\$
Consolidated Group						
Balance at incorporation date	-	-	-	-	-	-
Shares issued during the period	10,444,000	-	-	-	-	10,444,000
Options issued during the period	-	-	340,000	-	-	340,000
Issue of options to Directors	-	-	-	12,690	-	12,690
Transaction costs	(958,754)	-	-	-	-	(958,754)
Loss attributable to members of the parent entity	-	(1,238,886)	-	-	-	(1,238,886)
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	(156,379)	(156,379)
Balance at 30 June 2007	9,485,246	(1,238,886)	340,000	12,690	(156,379)	8,442,671
Balance at 1 July 2007	9,485,246	(1,238,886)	340,000	12,690	(156,379)	8,442,671
Shares issued during the year	2,561,125	-	-	-	-	2,561,125
Options issued during the year	-	-	-	188,450	-	188,450
Transaction costs	(332,775)	-	-	-	-	(332,775)
Loss attributable to members of the parent entity	-	(4,023,309)	-	-	-	(4,023,309)
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	(583,931)	(583,931)
Balance at 30 June 2008	11,713,596	(5,262,195)	340,000	201,140	(740,310)	6,252,231

The accompanying notes form part of these financial statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

The company is an ASX listed public company, incorporated in Australia and operating in Australia and the United States of America. The Company was incorporated on 6 April 2006 and therefore the comparatives for this report are for the period from incorporation to 30 June 2007 (15 month period). The principal activities were the exploration for and production of oil and gas in the United States of America.

(b) Adoption of new and revised standards

In the year ended 30 June 2008, the Group has adopted 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 2007. 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 Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2008. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies. Refer to Note 1 (z).

(c) Statement of Compliance

The financial report was authorised for issue on 30 September 2008.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(d) Basis of Consolidation

The consolidated financial statements comprise the separate financial statements of Target Energy Limited and its subsidiaries as at 30 June 2008 (the Group).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profits and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of subsidiaries for the period from their acquisition.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet.

(e) Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) **Critical accounting judgements and key sources of estimation uncertainty (continued)**

Share-based payment transactions:

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 11.

(f) **Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Oil & Gas Production Revenue

Oil & Gas production revenue is recognised when the significant risks and rewards of ownership have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the buyer.

(g) **Cash and cash equivalents**

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

(h) **Trade and other receivables**

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(i) **Derecognition of financial assets and financial liabilities**

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Derecognition of financial assets and financial liabilities (continued)

- the Group has transferred its rights to receive cash flows from the asset and either
 - (a) has transferred substantially all the risks and rewards of the asset, or
 - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(j) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account.

The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of financial assets (continued)

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(k) Foreign currency translation

Both the functional and presentation currency of Target Energy Limited and its Australian subsidiaries is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the foreign operations, TELA Garwood Limited LP and TELA Louisiana Limited Inc, is United States dollars (US\$).

As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of Target Energy Limited at the rate of exchange ruling at the balance sheet date and their income statements are translated at the exchange rate at the year end.

The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(m) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Other taxes (continued)

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(n) Property, plant and equipment

Oil and gas properties include construction, installation or completion of infrastructure facilities such as pipelines and platforms, capitalised borrowing costs, transferred exploration and evaluation costs, and the cost of development wells.

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Land and buildings are measured at fair value less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Office Equipment – over 5 to 8 years

Oil and Gas Properties – over the life of proved plus probable reserves (UOP)

Computer Equipment – over 2.5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in the cost of sales line item.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) *Available-for-sale investments*

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

(p) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Intangible assets (continued)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(q) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(r) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(s) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(u) Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(v) Share-based payment transactions

(i) Equity settled transactions:

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model, further details of which are given in Note 11.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Target Energy Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition. If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Share-based payment transactions (continued)

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 5).

(ii) Equity settled transactions – Options issued as part of rights issue:

The costs of these equity-settled transactions with participants in the 2007 share placement are measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by reference to the closing bid price at the date of issue.

The cost of these equity-settled transactions is recognised, together with a corresponding increase in equity, in share issue costs.

(w) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(x) Earnings/(loss) per share

Basic earnings/(loss) per share is calculated as net profit/(loss) attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings/(loss) per share is calculated as net profit/(loss) attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and

other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(y) Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure in relation to separate areas of interest for which rights of tenure are current, are capitalised in the period in which they are incurred and are carried at cost less accumulated impairment losses. The cost of acquisition of an area of interest and exploration expenditure relating to that area of interest are carried forward as an asset in the Balance Sheet so long as the following conditions are satisfied:

- (i) the rights to tenure of the area of interest are current; and
- (ii) at least one of the following conditions is also met:
 - the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
 - exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Exploration and evaluation expenditure is assessed for impairment when facts and circumstances suggest that their carrying amount exceeds their recoverable amount and where this is the case an impairment loss is

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Exploration and evaluation (continued)

recognised. Should a project or an area of interest be abandoned, the expenditure will be written off in the period in which the decision is made.

Once an area of interest enters a production phase all capitalised expenditure in relation to that area of interest is transferred to Development Expenditure. Capitalised Development Expenditure is amortised from the commencement of production on a unit of production basis over recoverable reserves. Recoverable reserves are subject to review annually. The recoverable reserves are estimates calculated from available production and reservoir data and are subject to change. Once a proven and probable reserve is determined, all capitalised expenditure is transferred to Oil and Gas Properties.

(z) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Consolidated entity's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8. AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Account Standards arising from AASB 123 (AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and interpretations 1 & 12). The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and – when adopted – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group has no borrowings.

(iii) Revised AASB 101 Presentation of Financial Statements and AASB 2007 – 8 Amendments to Australian Accounting Standards arising from AASB 101. A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of recognised income and expense, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period.

NOTE 2: REVENUE AND EXPENSES

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Revenue				
Oil and Gas income	1,031,332	-	-	-
Interest received	231,040	203,400	419,052	221,277
Other income	-	51	-	51
	1,262,372	203,451	419,052	221,328
	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
(b) Expenses				
Depreciation of non-current assets	25,883	12,774	25,883	12,774
Net foreign exchange losses	254,256	325,146	862,148	481,525
Impairment of non current assets				
- impairment of loan to controlled entity	-	-	3,220,728	184,866
- impairment of deferred exploration expenditure	1,971,534	-	-	-
	1,971,534	-	3,220,728	184,866
Option issue expense	12,500	12,690	12,500	12,690
Contribution to employee superannuation plans	31,120	34,504	31,120	34,504

NOTE 3: INCOME TAX

(a) Income tax recognised in profit/loss

No income tax is payable by the parent or consolidated entities as they recorded losses for income tax purposes for the year.

(b) Numerical reconciliation between income tax expense and the loss before income tax.

The prima facie income tax benefit on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Accounting loss before tax	(4,023,309)	(1,238,886)	(4,618,929)	(1,383,433)
Income tax benefit at 30% (2007:30%)	1,206,993	371,666	1,385,679	415,030
Non-deductible expenses:				
Foreign tax rate adjustment	208,341	-	-	-
Foreign exchange loss	(76,277)	(97,544)	(258,644)	(144,458)
Option issue expense	(3,750)	(3,807)	(3,750)	(3,807)
Impairment of loan to controlled entity	-	-	(966,218)	(55,460)
Other non deductible expenses	(821)	-	(821)	-
Unrecognised tax losses	(1,334,486)	(270,315)	(156,246)	(211,305)
Income tax benefit attributable to loss from ordinary activities before tax	-	-	-	-
(c) Unrecognised deferred tax balances				
Tax losses attributable to members of the tax consolidated group - revenue	9,267,466	3,310,622	1,809,925	1,061,601
Potential tax benefit at 30%	2,780,240	993,187	542,978	318,480
Deferred tax liability not booked				
Deferred exploration expenditure	(1,256,936)	(756,431)	-	-
Deferred tax asset asset not booked				
Amounts recognised in profit & loss				
-employee provisions	3,322	2,558	3,322	2,558
-other	3,600	3,900	3,600	3,900
Amounts recognised in equity				
- share issue costs	218,105	240,725	218,105	240,725
Net unrecognised deferred tax asset at 30%	1,748,331	483,939	768,005	565,663

A deferred tax asset attributable to income tax losses has not been recognised at balance date as the probability criteria disclosed in Note 1(l) is not satisfied and such benefit will only be available if the conditions of deductibility also disclosed in Note 1(l) are satisfied.

NOTE 4: 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 5: EARNINGS/(LOSS) PER SHARE

	Consolidated Group	
	2008	2007
	Cents	Cents
<i>Basic loss per share (cents per share)</i>	(5.5)	(3.2)
The loss and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:		
Loss for the year	(4,023,309)	(1,238,886)
Weighted average number of shares outstanding during the year used in calculations of basic loss per share	73,366,699	38,475,610
<i>Diluted loss per share</i>		
There is no dilution of shares due to options as the potential ordinary shares are not dilutive and are therefore not included in the calculation of diluted loss per share		

NOTE 6: CASH AND CASH EQUIVALENTS

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash at bank	2,429,846	5,853,843	1,996,252	5,830,442
Cash on hand	300	300	300	300
	2,430,146	5,854,143	1,996,552	5,830,742

Cash at bank earns interest at floating rates based on daily bank deposit rates

NOTE 6: CASH AND CASH EQUIVALENTS (continued)

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
(i) Reconciliation to Cash Flow Statement				
For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank.				
Cash and cash equivalents as shown in the cash flow statement are reconciled to the related items in the balance sheet as follows:				
Cash and cash equivalents	2,430,146	5,854,143	1,996,552	5,830,742
(ii) Reconciliation of loss after income tax to net cash flows from operating activities:				
	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Loss after income tax	(4,023,309)	(1,238,886)	(4,618,929)	(1,383,433)
Depreciation	25,883	12,774	25,883	12,774
Amortisation	176,528	-	-	-
Option issue expense	12,500	12,690	12,500	12,690
Impairment of non current assets	1,971,534	-	3,220,728	184,866
Exploration expenditure written off	1,656,313	169,454	-	-
Foreign exchange loss	254,256	-	862,148	-
	73,705	(1,043,968)	(497,670)	(1,173,103)
Changes in operating assets and liabilities, net of the effects of purchase of subsidiaries:				
(Increase)/decrease in trade and other receivables	(230,086)	(36,039)	35,466	(36,039)
(Decrease)/Increase in trade and other payables	(28,960)	89,519	(54,223)	86,507
(Decrease)/Increase in employee benefits	2,549	-	2,549	-
Net cash outflow from operating activities	(182,792)	(990,488)	(513,878)	(1,122,635)

NOTE 7: CURRENT TRADE AND OTHER RECEIVABLES

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current				
Trade receivables	254,335	7,186	10,002	7,186
Prepayments	11,418	16,855	11,418	16,855
GST recoverable	-	11,998	-	11,998
Other	372	-	372	-
	266,125	36,039	21,792	36,039

The average credit period on sales of goods and rendering of services is 30-90 days. No interest is charged.

NOTE 8: OTHER CURRENT FINANCIAL ASSETS

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current				
Term deposit	50,000	50,000	50,000	50,000
	50,000	50,000	50,000	50,000

The term deposit is held as security by a bank, on behalf of the Company, in respect of an unused credit card facility for a total of \$50,000.

Non-Current

Loan to controlled entities	-	-	7,609,472	2,738,525
Less: provision for impairment	-	-	(3,405,594)	(184,866)
	-	-	4,203,878	2,553,659

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group			Parent Entity		
	Office Equipment	Computer Equipment	Total	Office Equipment	Computer Equipment	Total
	\$	\$	\$	\$	\$	\$
Year ended 30 June 2008						
At 1 July 2007, net of accumulated depreciation	32,397	38,173	70,570	32,397	38,173	70,570
Additions	1,593	154	1,747	1,593	154	1,747
Depreciation charge for the year	(6,599)	(19,284)	(25,883)	(6,599)	(19,284)	(25,883)
At 30 June 2008, net of accumulated depreciation	27,391	19,043	46,434	27,391	19,043	46,434
At 1 July 2007						
Cost	35,250	48,094	83,344	35,250	48,094	83,344
Accumulated depreciation	(2,853)	(9,921)	(12,774)	(2,853)	(9,921)	(12,774)
Net carrying amount	32,397	38,173	70,570	32,397	38,173	70,570
At 30 June 2008						
Cost	36,843	48,248	85,091	36,843	48,248	85,091
Accumulated depreciation	(9,452)	(29,205)	(38,657)	(9,452)	(29,205)	(38,657)
Net carrying amount	27,391	19,043	46,434	27,391	19,043	46,434

The useful life of the assets was estimated as follows for 2008:

Office equipment	5 to 8 years
Computer equipment	2.5 years

NOTE 10: DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Costs carried forward in respect of:				
Exploration and evaluation phase - at cost				
Balance 1 July	2,521,438	-	-	-
Effects of movements in foreign exchange	(307,171)	-	-	-
Expenditure incurred	5,779,895	2,690,892	-	-
	7,994,162	2,690,892	-	-
Expenditure written off	(1,656,313)	(169,454)	-	-
Impairment losses charged to profit or loss	(790,427)	-	-	-
Transferred to development phase	(2,859,678)	-	-	-
Balance 30 June	2,687,744	2,521,438	-	-
Development phase - at cost				
Balance 1 July	-	-	-	-
Transferred from exploration and evaluation phase	2,859,678	-	-	-
Impairment losses charged to profit or loss	(1,181,107)	-	-	-
Provision for amortisation	(176,528)	-	-	-
Balance 30 June	1,502,043	-	-	-
Total exploration and development expenditure	4,189,787	2,521,438	-	-

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases are dependent on successful development and commercial exploitation or sale of the respective areas.

NOTE 11 : SHARE BASED PAYMENT PLANS

The expense recognised in the income statement in relation to share-based payments is disclosed in Note 2. In addition \$175,950 has been included as part of share issue costs, being the expense recognised in relation to 2.55 million options issued for no consideration as part of the December 2007 share placement.

The following table illustrates the number (No.) and weighted average exercise prices of and movements in share options issued during the year:

	2008	2008	2007	2007
	No.	Weighted average exercise price	No.	Weighted average exercise price
Outstanding at the beginning of the period	6,000,000	20 cents	-	-
Granted during the period	2,800,000	25 cents	6,000,000	20 cents
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	8,800,000	20 cents	6,000,000	20 cents
Exercisable at the end of the period	8,800,000	21.6 cents	6,000,000	20 cents

NOTE 11 : SHARE BASED PAYMENT PLANS (continued)

The outstanding balance as at 30 June 2008 is represented by:

- 6,000,000 unlisted options over ordinary shares with an exercise price of 20 cents each, exercisable on or before 30 June 2011.
- 2,800,000 listed options over ordinary shares with an exercise price of 25 cents each, exercisable on or before 26 November 2009. 2.55 million of these options were issued to participants in the 2007 share placement and 250,000 were issued in consideration for consulting services provided.

The fair value of options granted during the period was \$188,450 (2007: 12,690). The options issued during the current year were listed and therefore the closing bid price of these options has been used to determine fair value.

The fair value of the equity-settled share options granted in the prior year was estimated as at the date of grant using a Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model:

	2007
Volatility (%)	60
Risk-free interest rate (%)	5.7
Expected life of option (years)	5
Exercise price (cents)	20
Weighted average share price at grant date (cents)	2.5

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

NOTE 12: TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current				
Trade payables	672,571	15,648	8,592	12,636
Employee entitlements	11,074	8,525	11,074	8,525
Accruals	15,167	13,000	15,167	13,000
GST payable	21,219	-	21,219	-
Other payables	10,230	52,346	10,230	52,346
	730,261	89,519	66,282	86,507

Trade payables are non-interest bearing and are normally settled on 30-day terms.

NOTE 13: ISSUED CAPITAL

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
78,244,500 (2007: 68,000,000) fully paid ordinary shares	11,713,596	9,485,246	11,713,596	9,485,246

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	No.	No.	No.	No.
(i) Ordinary shares - number				
At start of period	68,000,000	-	68,000,000	-
Issue of promoter and seed capital shares	-	18,000,000	-	18,000,000
Issue of shares pursuant to the IPO Prospectus	-	50,000,000	-	50,000,000
Shares issued - 10,200,000 on 21 December 2007 at \$0.25	10,200,000	-	10,200,000	-
Shares issued - 44,500 on 20 June 2008 at \$0.25	44,500	-	44,500	-
Balance at 30 June 2008	78,244,500	68,000,000	78,244,500	68,000,000

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
(ii) Ordinary shares – value				
At start of period	9,485,246	-	9,485,246	-
Issue of promoter and seed capital shares	-	444,000	-	444,000
Issue of shares pursuant to the IPO Prospectus	-	10,000,000	-	10,000,000
Shares issued - 10,200,000 on 21 December 2007 at \$0.25	2,550,000	-	2,550,000	-
Shares issued - 44,500 on 20 June 2008 at \$0.25	11,125	-	11,125	-
Less share issue costs	(332,775)	(958,754)	(332,775)	(958,754)
Balance at 30 June 2008	11,713,596	9,485,246	11,713,596	9,485,246

NOTE 14: RESERVES

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Reserves	(199,170)	196,311	541,140	352,690

Reserves comprise the following:

Option Reserve

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	No.	No.	No.	No.
Number of Options				
At start of period	34,000,000	-	34,000,000	-
Issue of options exercisable at 25 cents pursuant to the Prospectus dated 9 March 2007	-	34,000,000	-	34,000,000
Exercise of options dated 20 June 2008	(44,500)	-	(44,500)	-
Balance at 30 June 2008	33,955,500	34,000,000	33,955,500	34,000,000
Value of Options	\$	\$	\$	\$
At start of period	340,000	-	340,000	-
Issue of options exercisable at 25 cents pursuant to the Prospectus dated 9 March 2007	-	340,000	-	340,000
Exercise of options dated 20 June 2008	-	-	-	-
Balance at 30 June 2008	340,000	340,000	340,000	340,000

Share Based Payments Reserve

	No.	No.	No.	No.
Number of Options				
At start of period	6,000,000	-	6,000,000	-
Issue of options exercisable at 20 cents on 4 July 2006 (remuneration options issued to directors)	-	6,000,000	-	6,000,000
Issue of options exercisable at 25 cents dated 23 January 2008	2,550,000	-	2,550,000	-
Issue of options exercisable at 25 cents dated 8 April 2008	250,000	-	250,000	-
Balance at 30 June 2008	8,800,000	6,000,000	8,800,000	6,000,000
Value of Options	\$	\$	\$	\$
At start of period	12,690	-	12,690	-
Issue of options exercisable at 20 cents on 4 July 2006 (remuneration options issued to directors)	-	12,690	-	12,690
Issue of options exercisable at 25 cents dated 23 January 2008	175,950	-	175,950	-
Issue of options exercisable at 25 cents dated 8 April 2008	12,500	-	12,500	-
Balance at 30 June 2008	201,140	12,690	201,140	12,690

Foreign Currency Translation Reserve

At start of period	(156,379)	-	-	-
Currency translation differences	(583,931)	(156,379)	-	-
Balance at 30 June 2008	(740,310)	(156,379)	-	-

NOTE 14: RESERVES (Continued)

Nature and purpose of reserves

Share Based Payments Reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration and to third parties for services provided. Refer to Note 11 for further details.

Option Reserve

This reserve records the proceeds from the issue of options at 1 cent as per the prospectus dated 9 March 2007.

Foreign Currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the assets and liabilities of foreign subsidiaries into the presentation currency.

NOTE 15: FINANCIAL INSTRUMENTS

Consolidated

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing			Non-interest bearing	Total
			Within Year	1 to 5 Years	Over 5 Years		
30 June 2008							
		\$	\$	\$	\$	\$	\$
Financial Assets:							
Cash & cash equivalents	5.7%	2,430,146	-	-	-	-	2,430,146
Trade and other receivables		-	-	-	-	266,125	266,125
Other financial assets (current)	6.8%	-	50,000	-	-	-	50,000
Total Financial Assets		2,430,146	50,000	-	-	266,125	2,746,271
Financial Liabilities:							
Trade and other payables		-	-	-	-	730,261	730,261
Total financial liabilities		-	-	-	-	730,261	730,261

Consolidated

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing			Non-interest bearing	Total
			Within Year	1 to 5 Years	Over 5 Years		
30 June 2007							
		\$	\$	\$	\$	\$	\$
Financial Assets:							
Cash & cash equivalents	4.5%	5,854,143	-	-	-	-	5,854,143
Trade and other receivables		36,039	-	-	-	-	36,039
Other financial assets (current)	5.5%	50,000	-	-	-	-	50,000
Total Financial Assets		5,940,182	-	-	-	-	5,940,182
Financial Liabilities:							
Trade and other payables		89,519	-	-	-	-	89,519
Short-term borrowings		-	-	-	-	-	-
Total financial liabilities		89,519	-	-	-	-	89,519

NOTE 16: EXPENDITURE COMMITMENTS

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
(i) Operating Lease Commitments				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable - minimum lease payments				
- not later than 12 months	114,276	110,364	114,276	110,364
- between 12 months and 5 years	447,719	499,466	447,719	499,466
- greater than 5 years	-	-	-	-
	561,995	609,830	561,995	609,830

The company entered into an operating lease on 15 January 2007 for office space it occupies in West Perth. The term of the lease is 5 years.

	Consolidated Group		Parent Entity	
(ii) Expenditure commitments contracted for:	2008	2007	2008	2007
	\$	\$	\$	\$

Exploration Tenements

In order to maintain current rights of tenure to exploration tenements, the Company is required to outlay rentals and to meet the minimum expenditure requirements. These obligations are not provided for in the financial statements and are payable:

- not later than 12 months	3,021,875	2,891,000	-	-
- between 12 months and 5 years	-	-	-	-
- greater than 5 years	-	-	-	-
	3,021,875	2,891,000	-	-

NOTE 17: RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Target Energy Limited and the subsidiaries listed in the following table.

<i>Name</i>	Country of Incorporation	% Equity Interest 2008	% Equity Interest 2007	Investment \$ 2008	Investment \$ 2007
Target Energy Limited (parent)	Australia				
TELA (USA) Inc	USA	100	100	-	-
TELA Louisiana Limited Inc	USA	100	100	-	-
TELA Texas Holdings Limited Inc	USA	100	100	-	-
<i>its subsidiaries:</i>					
TELA Texas General LLC	USA	100	100	-	-
TELA Texas Limited LLC	USA	100	100	-	-
<i>its subsidiary</i>					
TELA Garwood Limited LP ¹	USA	99	99	-	-

Note 1 - 1% owned by TELA Texas General LLC

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short-term employee benefits	417,902	457,564	417,902	457,564
Post-employment benefits	27,273	27,621	27,273	27,621
Share-based payments	-	12,690	-	12,690
	445,175	497,875	445,175	497,875

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Amounts owed by Related Parties				
Subsidiaries				
TELA Louisiana Limited Inc	-	-	6,966,618	2,130,757
TELA Garwood Limited LP	-	-	642,854	607,768
Total	-	-	7,609,472	2,738,525
Provision for impairment	-	-	(3,405,594)	(184,866)
	-	-	4,203,878	2,553,659

	2008		2008	
	\$		\$	
Amounts payable to Directors for Directors Fees	102,000	-	102,000	-

Outstanding balances at year-end are unsecured and settlement occurs in cash.

For the year ended 30 June 2008, the Group has made provision for the impairment of the loan to TELA Garwood Limited LP amounting to \$280,728 and TELA Louisiana Limited Inc amounting to \$2,940,000.

An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the Group recognises an allowance for the impairment loss.

NOTE 18: EVENTS AFTER THE BALANCE SHEET DATE

On 7 July 2008 the Company closed its 1 for 3 renounceable rights issue having raised \$3,388,589 via the issue of 26,066,067 shares and 26,066,067 options, exercisable at 25 cents each by 26 November 2009.

On 31 July 2008, the Company announced the completion of the Pine Pasture #2 well on the East Chalkley prospect. The Company advised that oil bearing sands were intersected and subsequently advised that flow testing is continuing.

On 4 August 2008 the Company announced that the drilling of the Vincent #1 well on the Bandito prospect had reached target depth. Evaluation of results had indicated that the target sands are absent and the well has been plugged and abandoned.

On 7 August 2008, the Company granted 500,000 unlisted options to its US based manager. These options are exercisable at 12 cents on or before 7 August 2011.

Other than this there has not arisen in the interval between the end of the 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.

NOTE 19: AUDITORS' REMUNERATION

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$		
Amounts received or due and receivable by the auditors for:				
Audit or review of the financial reports of the Company	20,450	13,700	20,450	13,700
Other services	-	7,500	-	7,500
	20,450	21,200	20,450	21,200

NOTE 20: DIRECTORS AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

Didier Murcia - Chairman (non-executive)

Laurence Roe - Managing Director

Michael Martin - Director (non-executive)

Paul Lloyd - Director (non-executive)

(ii) Executives

None

There were no changes in the Managing Director or key management personnel after reporting date and up to the date the financial report was authorised for issue, other than Mr Rowan Caren replacing Mr Paul Lloyd as Company Secretary on 8 August 2008.

NOTE 20: DIRECTORS AND EXECUTIVE DISCLOSURES (Continued)

(b) Compensation of Key Management Personnel

The Company has taken advantage of the relief provided by Corporate Regulations 2M.6.04 and has transferred the detailed remuneration disclosures to the Directors' report. In accordance with AASB 124, remuneration disclosures related to Key Management Personnel are included in the Remuneration Report in the Directors' Report. The relevant information can be found in section B of the Remuneration Report.

Note 11 provides details of options granted under the LTI plan.

(c) Compensation by category of Key Management Personnel for the year ended 30 June 2008

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short-term employee benefits	417,902	457,564	417,902	457,564
Post-employment benefits	27,273	27,621	27,273	27,621
Share-based payments	-	12,690	-	12,690
	445,175	497,875	445,175	497,875

(d) Compensation options: Granted and vested during the year (Consolidated)

No options were granted during the year.

(e) Shares issued on Exercise of Compensation Options (Consolidated)

No options were exercised during the period.

(f) Compensation Option holdings of Key Management Personnel - Unlisted (Consolidated)

	Balance at the start of the year	Granted as remuneration	Options Exercised	Net change other	Balance at the end of the period	Vested and exercisable at 30 June 2008
Directors						
Didier Murcia	-	-	-	-	-	-
Laurence Roe	2,000,000	-	-	-	2,000,000	2,000,000
Michael Martin	2,000,000	-	-	-	2,000,000	2,000,000
Paul Lloyd	2,000,000	-	-	-	2,000,000	2,000,000
	6,000,000	-	-	-	6,000,000	6,000,000

NOTE 20: DIRECTORS AND EXECUTIVE DISCLOSURES (continued)

(g) Option holdings of Key Management Personnel - Listed (Consolidated)

Directors	Balance at the start of the year	Granted as remuneration	Options Exercised	Net change other	Balance at the end of the period	Vested and exercisable at 30 June 2008
Didier Murcia	-	-	-	500,000	500,000	500,000
Laurence Roe	-	-	-	2,500,000	2,500,000	2,500,000
Michael Martin	-	-	-	2,000,000	2,000,000	2,000,000
Paul Lloyd	-	-	-	1,125,000	1,125,000	1,125,000
	-	-	-	6,125,000	6,125,000	6,125,000

(h) Shareholdings of Key Management Personnel (Consolidated)

Shares held in Target Energy Limited (number of ordinary shares)

	Balance at beginning of year	Granted as remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2008
30 June 2008					
Directors					
Didier Murcia	1,000,000	-	-	-	1,000,000
Laurence Roe	5,000,000	-	-	-	5,000,000
Michael Martin	4,000,000	-	-	-	4,000,000
Paul Lloyd	2,250,000	-	-	-	2,250,000
	12,250,000	-	-		12,250,000

All equity transactions with key management personnel other than those arising from the issue or exercise of compensation options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(i) Loans to Key Management Personnel (Consolidated)

No loans have been provided to key management personnel during the year.

(j) Other transactions and balances with Key Management Personnel

No other transactions with key management personnel have occurred during the year, other than legal fees of \$7,727 paid to Murcia, Pestell Hillard, a firm in which Mr Didier Murcia is a partner. These fees were charged based on normal commercial terms and conditions.

21. FINANCIAL RISK MANAGEMENT

The Consolidated entity's financial situation is not complex. Its activities may expose it to a variety of financial risks in the future: market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. At that stage the Consolidated entity's overall risk management program will focus on the unpredictability of the financial markets and seek to minimise potential adverse effects on the financial performance of the Consolidated entity.

Risk management is carried out under an approved framework covering a risk management policy and internal compliance and control by management. The Board identifies, evaluates and approves measures to address financial risks.

The Consolidated and the Parent entity hold the following financial instruments:

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	2,480,146	5,904,143	2,046,552	5,880,742
Loans and Receivables	266,125	36,039	4,225,670	2,589,698
	2,746,271	5,940,182	6,272,222	8,470,440
Financial liabilities				
Trade and other payables	730,261	89,519	66,282	86,507

(a) Market risk

Cash flow and fair value interest rate risk

The Consolidated entity's main interest rate risk arises from cash deposits to be applied to exploration and development of areas of interest. Deposits at variable rates expose the Consolidated entity to cash flow interest rate risk. Deposits at fixed rates expose the Consolidated entity to fair value interest rate risk. During 2008 and 2007, the Consolidated entity's deposits at variable rates were denominated in Australian Dollars and United States Dollars.

As at the reporting date, the Consolidated entity had the following variable rate deposits and there were no interest rate swap contracts outstanding:

	2008		2007	
	Weighted average interest rate %	Balance \$	Weighted average interest rate %	Balance \$
Deposit		2,479,846		5,903,843
Other cash available		300		300
Net exposure to cash flow interest rate risk	5.7%	2,480,146	4.5%	5,904,143

The Consolidated entity analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into the renewal of existing positions.

Sensitivity – Consolidated and Parent entity

During 2008, if interest rates had been 10% higher or lower than the prevailing rates realised, with all other variables held constant, there would be an immaterial change in post-tax profit for the year.

21. FINANCIAL RISK MANAGEMENT (continued)

Foreign currency risk

As a result of significant operations in the United States and large purchases denominated in United States Dollars, the Group's balance sheet can be affected significantly by movements in the US\$/A\$ exchange rates. The Group seeks to mitigate the effect of its foreign currency exposure by holding US Dollars.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

100% of the Group's sales are denominated in a currency (USD) other than the functional currency of the operating entity making the sale, and all of the operating costs are denominated in USD.

The Group does not have a policy to enter into forward contracts and does not negotiate hedge derivatives to exactly match the terms of the hedged item.

At 30 June 2008, the Group had the following exposure to US\$ foreign currency expressed in A\$ equivalents, that are not designated in cash flow hedges:

	Consolidated Group 2008 \$	Parent Entity 2008 \$
Financial assets		
Cash and cash equivalents	710,326	276,732
Trade and other receivables	244,333	-
	954,659	276,732
Financial liabilities		
Trade and other payables	663,979	-

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date:

At 30 June 2008, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post Tax Loss Higher/(Lower)
	2008 \$
Consolidated Group	
AUD/USD +10%	(145,275)
AUD/USD - 5%	84,333
Parent Entity	
AUD/USD +10%	(25,027)
AUD/USD - 5%	14,715

21. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

The Consolidated entity has no significant concentrations of credit risk. Cash transactions are limited to high credit quality financial institutions.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures on outstanding receivables and committed transactions. In relation to other credit risk areas management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised at the beginning of this note.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. The Consolidated entity manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Consolidated entity will aim at maintaining flexibility in funding by accessing appropriate committed credit lines available from different counterparties where appropriate and possible. Surplus funds when available are generally only invested in high credit quality financial institutions in highly liquid markets.

The Consolidated and parent entity have no borrowing facilities.

(d) Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Company consists of equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in notes 13 and 14.

The Board reviews the capital structure on a regular basis and considers the cost of capital and the risks associated with each class of capital. The Company will balance its overall capital structure through new share issues as well as the issue of debt, if the need arises.

Directors' declaration

1. In the opinion of the directors:
 - a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year then ended; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the year ended 30 June 2008.

This declaration is signed in accordance with a resolution of the Board of Directors.

A handwritten signature in dark ink, appearing to read 'Laurence Roe', is written over a faint, rectangular grid background.

Laurence Roe
Director

30 September 2008

INDEPENDENT AUDITOR'S REPORT

**To the members of
Target Energy Limited**

Report on the Financial Report

We have audited the accompanying financial report of Target Energy Limited ("the company"), which comprises the balance sheet as at 30 June 2008, the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the year ended on that date, and the directors' declaration for both the company and the consolidated entity as set out on pages 18 to 51. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the 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.

In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's Opinion

In our opinion:

- (a) the financial report of Target Energy is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(c).

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 7 to 10 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Target Energy Limited for the year ended 30 June 2008 complies with section 300A of the Corporations Act 2001.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

L Di Giallonardo

Perth, Western Australia
30 September 2008

L DI GIALLONARDO
Partner