

Target Energy Limited

(ABN 73 119 160 360)

Half Year Report

31 December 2006



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DIRECTORS' REPORT

Your directors submit the financial report of the company for the period from incorporation (6 April 2006) to 31 December 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

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

Didier Murcia	Chairman
Laurence Roe	Managing Director
Michael Martin	Executive Director
Paul Lloyd	Non-Executive Director/Company Secretary

Review of Operations

The company raised \$10 million from the Initial Public Offering Prospectus and was listed on the Australian Stock Exchange on 27 November 2006. During the period since listing, the company has completed the drilling of the Kant No 1 well in Texas USA. The well was plugged and abandoned due to it not encountering the presence of hydrocarbon bearing sands capable of yielding economic reserves. The company has an ongoing drilling program in Texas and Louisiana this year with another seven wells to be drilled.

The company incurred a net loss after tax of \$ 359,705 during the period to 31 December 2006.

The principal activities of the company continue to be oil and gas exploration. The directors have focused the company's operation on USA gulf states of Texas and Louisiana but will review all oil and gas opportunities.

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 2 and forms part of this directors' report for the period ended 31 December 2006.

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



Laurence Roe

Director

Dated this 14th day of March 2007.



Auditor's Independence Declaration

As lead auditor for the review of the financial report of Target Energy Limited for the period ended 31 December 2006, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Target Energy Limited.

A handwritten signature in black ink, appearing to read 'L Di Giallonardo'.

**Perth, Western Australia
14 March 2007**

**L Di Giallonardo
Partner, HLB Mann Judd**

**CONDENSED INCOME STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2006**

	Notes	2006 \$
Revenue		42,975
Other income		51
Employee benefits expense		(93,084)
Depreciation and amortisation expense		(287)
Consultants		(134,700)
Finance costs		(535)
Foreign exchange loss		(19,358)
Legal costs		(74,359)
Other expenses		(80,408)
Loss before income tax expense	2	(359,705)
Income tax expense		0
Loss after tax for the period		<u>(359,705)</u>
		1.93
Basic Loss per share (cents per share)		1.93
Diluted Loss per share (cents per share)		1.93

The accompanying notes form part of these financial statements

CONDENSED BALANCE SHEET
AS AT 31 DECEMBER 2006

	Notes	2006 \$
Assets		
Current Assets		
Cash and cash equivalents		8,600,342
Trade and other receivables		60,762
Total Current Assets		<u>8,661,104</u>
Non-Current Assets		
Property, plant and equipment		47,043
Deferred exploration expenditure	3	488,936
Total Non-Current Assets		<u>535,979</u>
Total Assets		<u>9,197,083</u>
Liabilities		
Current Liabilities		
Trade and other payables		24,425
Provisions		4,940
Total Current Liabilities		<u>29,365</u>
Total Liabilities		<u>29,365</u>
Net Assets		<u>9,167,718</u>
Equity		
Issued capital	4	9,514,733
Employee equity benefits reserve		12,690
Accumulated losses		(359,705)
Total Equity		<u>9,167,718</u>

The accompanying notes form part of these financial statements

**CONDENSED STATEMENT OF CHANGES IN
EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2006**

	Issued Capital	Employee equity benefits reserve	Accumul- ated losses	Total Equity
	\$	\$	\$	\$
Shares issued during the period	10,444,000	-	-	10,444,000
Share issue expenses	(929,267)	-	-	(929,267)
Loss after tax for the period	-	-	(359,705)	(359,705)
Recognition of share based payments	-	12,690	-	12,690
Balance at 31 December 2006	9,514,733	12,690	(359,705)	9,167,718

The accompanying notes form part of these financial statements

**CONDENSED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2006**

	2006 \$ Inflows/(Outflows)
Cash flows from operating activities	
Receipts from customers	0
Payments to suppliers and employees	(401,207)
Interest received	42,975
Finance costs	(535)
Income tax paid	0
Net cash (used in) operating activities	<u>(358,767)</u>
Cash flows from investing activities	
Purchase of non-current assets	(47,330)
Payments for exploration expenditure	(488,936)
Net cash (used in) investing activities	<u>(536,266)</u>
Cash flows from financing activities	
Proceeds from issue of shares	10,444,000
Payment for share issue costs	(929,267)
Net cash provided by financing activities	<u>9,514,733</u>
Net increase in cash held	8,619,700
Cash and cash equivalents at 6 April 2006	0
Effect of exchange rate changes	(19,358)
Cash at 31 December 2006	<u><u>8,600,342</u></u>

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The half-year report has been prepared on a historical cost basis, except for land and buildings, derivative financial instruments and available-for-sale financial assets which are measured at fair value. Cost is based on the fair value of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

It is recommended that this financial report be read in conjunction with the IPO Prospectus lodged with ASIC on 9 October 2006 and any public announcements made by Target Energy Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

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

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's IPO Prospectus lodged with ASIC on 4 September 2006.

In the half-year ended 31 December 2006, the company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006.

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

Cash

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Cash Flow Statement, cash includes cash on hand and in banks and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Revenue Recognition

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

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to the ATO is included as a current asset or liability in the Balance Sheet.

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

Income Tax

Deferred income tax is provided for on all temporary differences at balance date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the Income Statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law. The carrying amount of deferred tax assets is reviewed at each balance date and only recognised to the extent that sufficient future assessable income is expected to be obtained.

Recoverable Amount

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. In estimating value in use, a pre-tax discount rate is used which reflects current market assessments of the time value of money and the risks specific to the asset.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

- 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, and active and significant operations in, or in relation to, the area of interest are continuing.

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 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 within Property, Plant and Equipment in the Balance Sheet. 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.

Payables

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services. Amounts are unsecured and are usually paid within 30 days of recognition.

Share Based Payment Transactions

The Company currently provides benefits to employees (including Directors and senior executives) of the Company in the form of share-based payment transactions. The cost of these equity-settled transactions (options) with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using the Black and Scholes Option Pricing Model.

The cost of equity-settled transactions (options) is recognised (in the majority of cases as an expense in the Income Statement), together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award of the options ("vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the number of awards of options that, in the opinion of the Directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. 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.

Contributed Equity

Issued capital is recognised at the fair value of the consideration received by the Company.

Transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2006**

NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

31
December
2006
\$

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

Revenue	
Interest Received	42,975
Expenses	
Employee option issue expense	12,690

NOTE 3: DEFERRED EXPLORATION EXPENDITURE

Costs carried forward in respect of areas of interest in the following phases:

Exploration and evaluation phase – at cost

Balance at beginning of the period	0
Expenditure incurred	488,936
	<u>488,936</u>
Expenditure written off	0
Total deferred exploration expenditure	<u>488,936</u>

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

NOTE 4: ISSUED CAPITAL

31
December
2006
\$

Ordinary shares
Issued and fully paid

9,514,733

Movements in ordinary shares on issue

	No.	\$
Issue of promoter and seed capital shares	18,000,000	444,000
Issue of shares pursuant to IPO Prospectus	50,000,000	10,000,000
Share issue costs		(929,267)
At 31 December 2006	<u>68,000,000</u>	<u>9,514,733</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2006**

NOTE 5: SEGMENT REPORTING

Business Segments

The entity operates in one geographic segment for secondary reporting, being United States of America and in one business segment being exploration for oil and gas.

NOTE 6: EVENTS SUBSEQUENT TO REPORTING DATE

After reporting date, the Company announced to the Australian Stock Exchange that the Kant No 1 well had been plugged and abandoned because it did not encounter the presence of hydrocarbon bearing sands capable of yielding economic reserves. The deferred exploration expenditure relating to the Kant No 1 well of \$184,866 was written off after the reporting date.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes thereto, as set out on 3 to 11:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - b. give a true and fair view of the Company's financial position as at 31 December 2006 and of its performance for the period then ended.
2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Laurence Roe
Director

Dated this 14th day of March 2007



INDEPENDENT AUDITOR'S REVIEW REPORT

***To the members of
Target Energy Limited***

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report, which comprises the condensed balance sheet as at 31 December 2006, the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration, of Target Energy Limited.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility


Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001*, including giving a true and fair view of the company's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Target Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

HLB Mann Judd (WA Partnership)

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Partners: Ian H Barsden, Terry M Blenkinsop, Litsa Christodoulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmott, Trevor G Hoddy, Norman G Neill, Peter J Speechley

HLB Mann Judd (WA Partnership) is a member of  International and the HLB Mann Judd National Association of independent accounting firms

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* has been provided to the directors of Target Energy Limited on 14 March 2007.

Conclusion

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

- (a) giving a true and fair view of the company's financial position at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

L Di Giallonardo

Perth, Western Australia
14 March 2007

L DI GIALLONARDO
Partner